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GOVERNMENT BUDGETARY TECHNIQUES AND RELATED
MANAGEMENT SYSTEMS: WITH PARTICULAR REFERENCE
TO ENGLISH LOCAL AUTHORITIES

BY

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ABSTRACT

Government budgetary techniques and related management systems have been recently of great concern in many countries all over the world. At the present time a few, major developments have been made in this field and these are the main focus of discussions in this thesis with a view to assessing their respective influence on the management of government activities in general, and local government in particular. This study aims to achieve one major objective, that of the empirical investigation of the state and developments of such techniques and procedures in English local authorities. This was done on the basis of the combination of a theoretical analysis, supported by the necessary descriptive material, with an empirical survey to test the main hypotheses of the study. The thesis is presented in three parts, where the first and the second present the theoretical review of the literature, critically discussing the state of the above-mentioned procedures in government activities through both central and local government. The final part summarises and evaluates the findings resulting from the analysis of the survey. The various findings have, where appropriate, been used to test the conclusions of the theoretical aspects of the thesis.

The research findings suggest that traditional budgetary procedures in English local authorities are no longer sufficient for an effective and efficient allocation of resources. The annual budget within a corporate planning framework is an integrated part of overall policy and strategy in most authorities. Indeed it is a significant part of the corporate planning system. The present research also confirms that English local authorities have tended to doubt the practical value of PPBS and to prefer a corporate planning approach. A number of authorities have recognised the value of adopting ZBB, and some of them have adopted a modified budgeting approach based on ZBB principles. It seems that these authorities believe in ZBB as an approach suitable to a climate of restraint and cutback. Finally, the majority of the authorities disagree that the introduction of any changes in their accounting and auditing systems were a direct result of the introduction of the newer budgetary techniques.

CHAPTER 1

INTRODUCTION

1.1 Statement of the Problem

Today, world-wide, the increasing complexity of modern life has changed the traditional role of national governments from mainly maintaining law and order and national security, to a far greater involvement and responsibility in the economic and social life of their countries. As the size and scope of their activities continue to grow, governments need better ways to decide what they should do, how they should do it, and how much it would cost. As a result the budget has become not just a revenue and expenditure document for financial accountability purposes, but a very significant instrument for the allocation of the limited resources available to any government (Wildavsky, 1975; Lee and Johnson, 1977).

The budget, as an administrative device, is important as an information input in the decision-making process. Misallocation of resources may occur as a result of inadequate and misleading information. Hence, it is imperative to define, as specifically and accurately as possible, overall objectives, and to identify priorities between competing claims in order to obtain value for money.

The growing importance of modern government and the increasing complexity of its functions have made the traditional

budgeting approach inadequate -- primarily because it does not provide the decision-maker with the necessary and relevant information to determine the appropriate policies and decisions. (Anshen (1967) stated that:

"It (traditional budgeting) is an instrument for control of spending. It is not designed to assist analysis, planning and decision-making, and it does not work well for that purpose. It is a conventional comptrollers' budget, not a managers' budget."

From the above quotation, it seems clear that the traditional budgeting approach emphasises the accountability function and pays little attention to the very essential functions of planning and management. In other words, traditional budgeting generally has two basic purposes. First, it is considered as a legal document in which each department, agency or unit in the government is authorised to spend a specific amount of money over a certain period, normally one year, according to the government's laws and regulations. Secondly, it has to ensure that public funds are protected against fraud or theft and that the money has been spent according to its original allocation. In this context according to Anshen (1967) the outcomes of certain inputs in such a budget are to a greater extent, invariably neglected. Also, there is little emphasis on the ways and procedures of how to carry out specific functions.

In response to these shortcomings in the traditional approach, attempts have been made to overcome them. Such attempts resulted in the development of other budgetary techniques and related management systems such as performance budgeting, management by objectives, programme budgeting, corporate planning, and zero-base budgeting. The fundamental objective of such efforts is to make government budgeting a more effective technique for resource allocations. A major change in the traditional structure of the budget has been the classification of its items on an output basis rather than an input basis, with a clear definition of the objectives to be obtained from the expenditure (Lee and Johnson, 1977).

There are, however, two basic problems in applying the newer budgeting techniques to government activities (Anthony and Herzlinger, 1975). First, government objectives are usually very difficult to define. In some cases it is not hard to set the overall objective, but it gets more difficult when dealing with sub-objectives. Secondly, output in most cases is very difficult, if not impossible to measure because of the nature of government activities which differ completely from the aim and nature of business activities where indicators of success are relatively easier to determine (Perrin 1982).

In the United Kingdom, as it is in any other country, the need to utilise national resources with the maximum efficiency is very apparent. The government's share in the GNP has increased dramatically over the last few decades and now stands at approximately 50 per cent (Clarke, 1981). Half of the nation's

annual income flows through the hands of the government, and some 30 per cent of the labour force are employed in the government's organisations (Byrne, 1981). The obvious consequence has been increased taxes, nationally and locally, to meet the fast growing public expenditure which has reached over £115bn in 1982/83 (White Paper, 1982). According to the White Paper, central government expenditure was expected to increase by 8.1 per cent between 1981/82 and 1982/83 to a total of £84.1bn, or 73 per cent of total public expenditure. In 1976/77 central government was responsible for only 67 per cent of total public expenditure, while local authorities' expenditure in total was expected to increase by only 9 per cent between 1981/82 and 1982/83, bringing its share down to 24 per cent of total public expenditure compared with 29 per cent in 1976/77 (White Paper, 1982).

It is within this context of increasing public sector expenditure that the taxpayer in return expects more and better services from both central and local government. In response to such pressure, the government has been trying to improve its allocation decisions by seeking more and better information in order to exert more effective planning and control over public expenditure. It has been realised that public expenditure planning should be on a long-term basis, as well as short-term, and also should cover the whole of the public sector to be able to identify priorities and trade-offs between programmes (Jackson, 1981). The efforts of central government and local government toward more effective budgetary techniques as well as the related management systems are reviewed and critically discussed later in this study.

1.2 Objective of the Study

Government budgeting involves the selection of political ends, and the selection of means to reach those ends. Public budgeting systems are systems for making choices about ends and means, which especially involves making political decisions that allocate scarce resources between the private and public sectors of society, and decisions that allocate these resources within the public sector among alternative uses. These three functions have recently become a matter of great concern in many countries. At the present time a few major developments have been made in this field, and these are the main focus of discussion in this thesis. This study aims to accomplish one major objective, that of the empirical investigation of the state of budgetary techniques and related management systems in English local authorities. It does so on the basis of a comprehensive review of the literature on governmental budgetary techniques in the USA as well as in the UK.

The study proceeds to observe, describe and measure how local government budgetary techniques and related management systems were actually employed, and then to consider the applicability of existing conceptual and empirical propositions to that actuality. The empirical investigation, was carried out by a postal questionnaire sent to a population of 411 local authorities which represented all the local authorities in England, supported by a few personal interviews in selected authorities. The main purpose was to seek the opinion and views of those people who are actually involved in the budgetary processes in local authorities, and to determine their attitudes toward the state of the budgetary techniques

employed. The literature review was essential to explore the subject and was used as a basis for the survey. The importance of this study stems from the fact that the information from this survey leads to a better understanding of the problem of budgeting process, and an improvement of the way that the government budgetary concepts should be implemented.

1.3 Limitations of the Study

The study was concerned to review and investigate the state of government budgetary techniques and related management systems, with special reference to English local authorities. The empirical survey was restricted to local government because of the difficulty in obtaining detailed information from central government departments.

In addition, it was felt that to contact only the treasurers or directors of finance would be the most likely proper way to collect the data needed. It seems that in local authorities the financial control duties tend to be highly centralised, with no proper qualified personnel located in each spending department. Rosenberg et al. (1982) stated that:

"In most of the largest UK local authorities the financial control function is highly centralised with no qualified accountant or controller located in each spending department. There now may be the beginning of a trend towards employing accountants within service departments."

This was confirmed during the pilot study phase where the author was advised to concentrate his effort mainly on the information and data which could be obtained from the treasurers' departments and/or director of finance, because the issues involved in the questionnaire were mostly specialised ones and needed professional experience which would perhaps not exist in service departments. Nevertheless, a shortened version of the questionnaire was used for directors or Chief Officers of four service departments, i.e. Education, Housing, Police and Social Services. The aim was to undertake a cross check or validation of the views and attitudes of the respondents to the questionnaire.

Furthermore, the research included only English local authorities for the empirical studies, because it seems that the British local government is not homogenous. According to Henley et al. (1983) and Byrne (1981) there are different systems of local government in England, Wales, Scotland and Northern Ireland. It was felt impracticable to take full account of this variety, and the issues explored in the empirical study, in particular, are mostly relevant to English local authorities. Nevertheless, the data obtained in this study should produce a basic reservoir of empirical evidence and will suggest a number of relationships to be tested on a broader scale.

1.4 Research Methodology

The method used in this research was to combine a theoretical analysis, supported by the necessary descriptive material, with an

empirical survey of the main hypotheses of the study. The theoretical analysis was based on extensive library research on the state of government budgetary techniques and related management systems, mainly traditional budgeting, performance budgeting, programme budgeting, and corporate planning as well as zero-base budgeting, and the role of the budget in modern governments with special emphasis on the British experience in central government and English local authorities.

The empirical survey was based on a postal questionnaire, which was chosen because the population is widely scattered (Bankroft and O'Sullivan, 1981), as well as the limited resources which plays a part, where funds and time were not available to visit all the due responding authorities. In addition, the questionnaire has the advantages of complete anonymity (where there is no interviewer to affect the respondent's answers), speed of coverage and economy, as well as some of the questionnaire's results could be quantified (Berdie and Anderson, 1974). However, a few interviews at selected authorities were carried out during the pilot study phase and further interviews were conducted during the discussion and validation of the final findings of the survey.

In designing the questionnaire which was intended to obtain primary information on the state of the budgetary procedures and related management systems, it was necessary to prepare the questions in such a way as would enable the hypotheses of this thesis to be examined. These hypotheses were generated from the review of the above-mentioned literature.

In order to test the significance of the relationship between the various variables of the questionnaire, the statistical Chi-square test was used. Also, another statistical technique was used, that is, an average scale score for the order of ranking of some other variables included in the questionnaire.

1.5 Plan of Presentation

This thesis consists of three identifiable parts. Part one, which includes the next two chapters, presents the theoretical review of the literature. Chapter Two briefly discusses government activities and their role in the economy of society, the government decision-making process and economic development planning, and its relationship with budgeting and control. Chapter Three contains a review and analysis of the stages of budgetary developments from the traditional approach to the recent developments following the decline of PPBS. This chapter also provides a brief description of the functions of government budgeting.

Part two is devoted to reviewing and critically discussing the state of budgetary techniques and related management systems in both the British central government and English local government. This part consists of three chapters.

Chapter Four deals with the state and developments of budgetary techniques and financial control procedures in the British central government. The first step is to study the organisation of

central government then to explore the establishment of the Public Expenditure Survey Committee (PESC) and the Central Policy and Review Staff (CPRS). The chapter proceeds to investigate the establishment of the cash limits system and cash planning, and examines how public expenditure is monitored and controlled.

Chapter Five is devoted to giving a brief outline of English local government. This will act as a basis to illustrate objectives, functions, circumstances, and the environment of English local authorities within the framework of British local government. The chapter proceeds to examine the reorganisation of English local authorities in the 1970's as well as the structure of the decision-making process.

Chapter Six examines the state of budgetary techniques and financial control procedures in local government as well as the attempts which are being made to develop better means for resource allocation. The chapter also examines the main aspects of the financial relationship between central and local government. Then the chapter explores the developments of the newer forms of budgeting and financial control.

Part three provides the empirical survey of the state and developments of the budgetary procedures and related management systems in English local authorities. This part is based on a postal questionnaire supported by some interviews at a few selected authorities, and it consists of three chapters. Chapter Seven introduces the questionnaire in terms of its objectives, design and structure, the limitations, statistical analysis techniques, and the

hypotheses. Chapter Eight assesses and analyses the findings of a part of the questionnaire, i.e. questions one to seven, which covers the following issues:

- types of budgets and related management systems in use;
- the effect of authorities' size and type;
- programme budgeting versus corporate planning and zero-base budgeting;
- local government reorganisation during the 1970's;
- Forward planning;
- the monitoring process; and
- the effectiveness of programme budgeting, corporate planning, and zero-base budgeting.

The findings of the second part of the questionnaire are discussed in Chapter Nine which deals with the following aspects:

- the users of budgetary information;
- the main functions of annual and medium-term budgets;
- setting the overall framework and concepts for budget preparation;
- forming the final consideration and decisions on the budgets;
- detailed estimates preparation;
- budgets as a means of control;
- the effect of the cash limit system on the planning and operation of budgetary systems;

- availability of adequate and relevant information and data outputs;
- measurement of performance; and
- changes in the accounting and auditing procedures.

Finally, Chapter Ten completes the study by providing a summary of the research and its conclusions.

PART ONE

THEORETICAL REVIEW OF THE LITERATURE

CHAPTER 2

GOVERNMENT BUDGETING AND FINANCIAL PLANNING AND CONTROL

2.1 Introduction

Government budgeting involves the selection of ends and the selection of means to reach those ends. Public budgeting systems are systems for making choices about ends and means. Making budget choices about ends and means especially involves making political decisions that allocate scarce resources between the private and public sectors of society, and decisions that allocate these resources within the public sector among alternative uses. These three functions have recently become a matter of great concern in many countries, particularly the highly developed ones. At the present time, a few major developments have been made in this field, and these are the main focus of discussion in this research. In this chapter, however, a brief examination of three topics seems desirable. First, the government activities and their role in the economy of society; secondly, the government decision-making process; and thirdly, economic development planning and its relationship with budgeting and control. To achieve the aims of this chapter, it has been divided into the main following sections:

1. Government activities.
2. Government decision-making process.
3. Budgeting and economic development planning and control.
4. Summary and conclusion.

2.2 Government Activities

It is safe to say that there are three major aims of government activities: resource allocation, economic stabilization and distribution of income (Musgrave, 1959). These three functions are achieved through payments from and to the government, i.e. public expenditure, and taxes.

Government activities depend on the needs of society. Having determined these needs, economic policies can be selected to satisfy those needs and desires. A society has various objectives with relative priorities. To achieve those objectives, there are alternative means. A modern society emphasises two primary objectives, "maximisation of per capita real income, and equity in the distribution of income among the members of society" (Due, 1969). It has been realised that such objectives can not be achieved solely by the private sector.

By increasing its activities, "government does not seek to maximise profit or utility for its own consumption. Government is moved by broader goals of social, political, and economic policy involving the entire economy" (Levin, 1975).

The tremendous expansion of government activities can be easily recognised by looking at public expenditure and its ratio to gross national product (GNP) in some countries. For instance, government spending in most developed countries now accounts for between 20 and 40 per cent of total consumption (Euro-guide, 1977-78). In the UK, according to Clarke (1981) the government's share in

the GNP has increased dramatically over the last few decades and now stands at approximately 50 per cent. In Egypt, as a less developed country, central government expenditure accounts for around 27 per cent of GNP (Mohammed, 1978).

It should be noted, however, that this indicator is not the best measure of the size of government activities, because part of the expenditure represents transfer payments which do not result directly in income-creating activities (Sliger et al., 1964). Examples of transfer payments are social security benefits and subsidies to businesses.

The volume of public expenditure and its proportion of GNP is considered here as the major indicator of the size of government activities, because of its significance. Sliger et al. (1964) have identified three basic aspects of the economic significance of public expenditure as (a) the provision of goods and services in socially desirable quantities, (b) the creation of income in the process of producing public goods and services, and (c) restricting individual economic freedom.

Table 2.1 shows the volume of government expenditure, GNP, the ratio of expenditure to GNP, and expenditure per head in two countries, the United Kingdom and the United States in selected years for the purpose of comparison. There are, however, three points which should be borne in mind while reading the table. First, the figures of expenditure and GNP in the table are at current prices. The changes over time in the price level have of course inflated these amounts and made them larger than they appear in real terms. To overcome this problem the percentage

indicator is considered as a better measure since changes in value of money are reflected in both the size of government expenditure and of gross national product. Second, some government expenditures, as indicated earlier, are transfer payments. Finally, the purpose of the table is not to compare between the two countries, rather it is a comparison between selected years to reflect changes in the volume of public expenditure over time within each country. Comparison between the two countries is indeed made difficult by differences in political structure, whereby the U.S.A has one extra (regional) tier, i.e. the state government, with both the regional and local tiers having greater autonomy in taxation than in the U.K.

Referring to the table, at first glance the substantial increase in government expenditure in money terms and the increased ratio to GNP, can be easily recognised. This is true for the two countries. Total U.K. government expenditure increased more than 194 times between 1900 and 1975. The increase in expenditure per head of population over the same period was more than 143 times. Furthermore, government expenditure's share in GNP increased from 14 per cent to 52 per cent over the same period. In the U.S.A., the increase in expenditure per head from 1900 to 1975 was more than 246 times.

From the above discussion, it is safe to say that government functions have grown rapidly over time. Hence, a question might arise, what are the reasons behind this rapid growth in government activities in general, and in Western countries in particular? A brief and clear answer is provided by Due (1969):

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TABLE 2.1

Total Government Expenditure, their Ratio to GNP and Expenditure per Head in the UK and the USA

	1900	1955	1970	1975
<u>U.K</u>				
Total Government expenditure (£m)	280.0 ^a	6,143.0 ^a	21,595.0 ^b	54,465.0 ^b
Expenditure per head £	6.8 ^a	120.5 ^a	390.5 ^a	973.2 ^a
G.N.P. £m	1,944.0 ^a	16,784.0 ^a	50,669.0 ^b	104,235.0 ^b
% of total expenditure to G.N.P.	14.4	36.6	42.6	52.3
<u>U.S.A</u>				
Federal government expenditure \$m	529.0 ^c	64,570.0 ^c	208,190.0 ^c	369,066.0 ^d
Expenditures per head \$	7.0	403.6	1,024.0	1,728.3
G.N.P. \$m	N.A	398,000.0 ^c	976,500.0 ^c	1,516,300.0 ^d
% of Federal expenditure to G.N.P.	-	16.2	21.3	24.3

Sources: (a) Peacock, A and Wiseman, J, The Growth of Public Expenditure in the United Kingdom, London, George Allen & Unwin, Ltd., 1967, p.42.

(b) The Europa Yearbook: 1973, Vol. 1, p. 1408
1977, Vol. 1, p. 1318

(c) Lee, R.D., Johnson, R.W., Public Budgeting Systems, Baltimore, University Park Press, 1977, pp. 36 and 59.

(d) The Europa Yearbook; 1977 Vol.2, p.673

"Given the bias in the Western world in favour of private sector activity over government, the rising governmental activity can be attributed primarily to greater recognition of the inadequacies of the market mechanism in meeting the performance of society".

According to Kaufman (1965) there are four reasons that contributed to this expansion, "the sheer increase in population, technological change, both hot and cold war, and economic crises."

Thus, the increasing intervention of government in the economic life has largely contributed to the rapid growth of government expenditure. As a consequence of private sector inadequacy, two major problems were created, economic instability and monopoly. Government action is needed when there is instability in prices and an increasing unemployment level. This action could be to increase or decrease public expenditure or make changes in taxation policy to cope with the situation. Also, where competition is of limited value, monopolies should be established. This standard applies to industries in which average unit costs decrease as outputs increase. Industries of this type include telephone service, electricity, natural gas and mass transportation. The monopoly may be operated directly by government or by a regulated private corporation (Lee and Johnson, 1977).

Moreover, government activity is required to produce goods and services which can not be supplied by the market. Such goods are known as collective goods. National defence is an example.

Also, there are other kinds of goods and services that may not be provided in the market on the scale the public desires, if the government does not supply such services. These types of services are called semi-collective goods, of which education is an example. If the government does not provide education for an individual in a society, the burden will be on the society as a whole, not only the concerned citizen.

Finally, government intervention in the economic life of a country is unavoidable in some special circumstances; such as the existence of high risk in some big investments which are essential to the development of the economy. In this sort of investment, the private sector is unwilling to risk heavy investment where future returns are in doubt. Here government has to carry out such projects for the benefit of the whole community.

Government intervention in the economic life of a society is achieved by the creation of a public sector to share the responsibility of the economic development with the private sector. This approach is adopted in almost all countries developed, less developed and under-developed, to carry out different development programmes for economic growth and promotion of the nation's well-being. British experience in public enterprises is very valuable for less developed and under-developed countries.

"British public enterprise has come to be regarded as a model to be studied, particularly in the under-developed countries which are promoting the public corporation as an instrument of economic expansion" (Cohen, 1969).

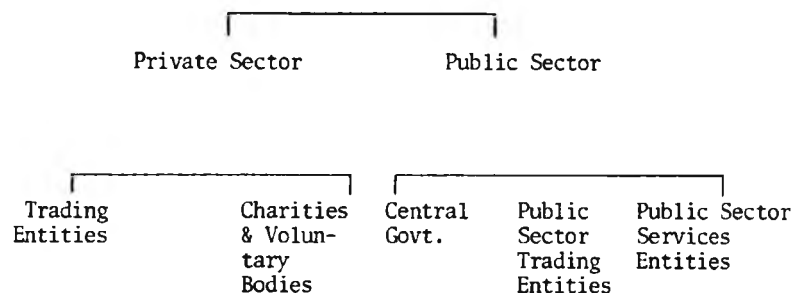
The public sector of an economy may be defined narrowly to include only activities conducted by the government, including those of central government and local government. The public sector may be defined more broadly to include all governmental units and other organisations in which:

1. Performance of services, i.e. output generally is made on the basis of needs rather than on the basis of ability to pay;
2. Contributors of resources receive no proportionate equity interest nor financial benefits from operations;
3. Accountability to the public is essential because of public support through contributions and the privileges granted by society, e.g., tax exempt statutes for not-for-profit organisations.

In the UK the economy contains two main sectors, i.e. the public sector and the private one. Within these two categories, all organisations not privately owned and operated are thought to be in the public sector. Figure 2.1 displays the types of organisations in the UK.

Figure 2.1

The types of organisations in the economy of the U.K.



In the USA the concept of public sector includes every level of government, federal, state and local governments regardless of its scope of authority. According to A.A.A Report (1970-71), these differences in authority may take the form of general purpose units (the federal government, states, special districts and other social authorities) and public corporations (Municipal Utilities, Federal Deposit Insurance Corporation, etc.).

In Egypt the economy is also divided into two main sectors: the public and the private. It looks like the British style. But, the economy of Egypt is a planned economy and the degree of private enterprise is relatively small. The UK, in contrast, whilst supporting state involvement in certain sectors of the economy, has a very strong commitment to private enterprise and can be considered as a good example of a mixed economy.

The public sector in Egypt is very important in the economic life. For example, in Egypt, the contribution of the public enterprises to the total industrial production during the period 1966-70, ranged in various sectors from 20 per cent to 80 per cent, while the value-added generated ranged from 76 per cent to 80 per cent, and the contribution to total gross fixed capital formation of the industrial sector ranged from 85 per cent to 95 per cent. The contribution of these enterprises to the total of gross Domestic Income in Egypt in 1974 was 43.6 per cent, while its share in the total production realised during the same year accounted for 52.7 per cent (Doban, 1978).

There is, however, one important fact to mention: that is, the primary purpose of government expenditure differs among countries. Horowitz (1963) has found out, by analysis of statistical data on government expenditure in a number of developed and developing countries, that a largest portion of public expenditure in developed countries is for the purpose of social welfare. On the other hand, in developing countries, a largest portion is devoted for economic developments.

As has been indicated earlier, the importance of government functions is well recognised in less developed and under-developed countries. In these countries, the government carries out the majority of the development programmes through public enterprises. Consequently, the public sector has grown substantially and its role in their economic life has undoubtedly increased.

In most less developed and under-developed nations, however, the private sector is still small in total and composed of small-scale units, and because of that it plays a minor role in the development process. In such countries, the individuals are not in a position to form big companies mainly because of low income and the lack of managerial skills. Thus government has no choice to carry out big projects and programmes for the sake of the nation's development and growth. But government usually is unable to carry out economically all projects needed for the purpose of development. Hence, a strong and effective private sector is badly needed. In some countries, as in Egypt, government has realised the important role of the private sector and adopted the policy of encouraging private companies to expand and share the responsibility of the development process along with the public sector. In such economies, the government offers substantial facilities to the private sector in order to invest in huge industrial development projects. These facilities might be loans free of interest for a long time (as is the case in Egypt since 1974), exemption from custom duties on imported machinery and supplies, or protection of the national products by increasing the rate of duty tax on imported products which can be produced locally. The consequence of this policy, if it is applied carefully and wisely could be, no doubt, the creation of a strong private sector capable of playing a major role in the development process of the country.

2.3 Government Decision-Making Process

The tremendous expansion of government activities and the increasing importance of its role in the economic life of modern society, as indicated earlier, have made the task of decision-making in government more difficult and more complex. Governments are normally facing the problem of the increasing needs and desires of their people together with the fact that costs needed to carry out necessary development programmes to accomplish national goals exceed the available resources. Therefore, decisions concerning choices between priorities have to be made.

The decision-maker can not avoid choosing when, how, whether, and what order his problem requires him to:

1. Analyse the situation to be sure that there is a problem requiring a decision.
2. Collect facts.
3. Analyse the relationship between the facts and the problem.
4. Consider new ideas and new ways to tackle the problem.
5. Weigh alternative courses of action, both new and old.
6. Choose a course of action.
7. Rejudge that course in the light of four questions:
 - a) will it achieve the purpose?
 - b) will it actually solve the problem in hand?

- c) is it feasible?
 - d) are there understandable results to offset the advantages?
8. Make and issue a decision.
 9. Follow it up (Jones, 1964).

In order to make the proper decision, decision-makers need to adopt new means to enable them to choose the best course of action for utilisation of available resources to achieve desired ends. As a result there has been an acceptance that policy analysis has a great potential in improving the decision-making process in public organisations, and new concepts and techniques have been introduced to carry out such improvement. Cost-benefit analysis, linear programming, systems analysis and programme budgeting are examples. These approaches, of course, are only means of helping decision-makers, they are not substitutes for the human and political judgement and responsibility. One of the basic requirements for application of such techniques is an adequate, strong and complete system of information. Such a system should provide comprehensive and up-to-date data to be used through all the stages of planning and decision-making.

Unfortunately, many developing countries, if not most, suffer from the lack of such a good information system, which makes the task of planning and decision-making much more difficult. The poor system of information is one of the major obstacles to economic development in such countries. In Egypt, as in many other less developed and under-developed countries, such weakness

exists and makes the development planning efforts less effective. For example, in the Egyptian Public Budget for the year 1981/82 there was a surplus around 480m L.E (Egyptian pound). Later, in December 1981, the president announced that the same budget had a deficit around the same figure, explaining in his announcement that this mistake was due to wrong estimates made because of the lack of the proper information about the economy.

Government decisions are very important to the whole economy, particularly those involving public spending. Thus, the commitment of resources for many years to come has resulted in the need for government to plan the necessary expenditure to carry out its tasks efficiently and economically to achieve national goals (The Plowden Report, July 1961). Accordingly developments of new decision-making techniques have been taking place in developed countries. The experience of some developed countries are valuable and might be considered by the Third World countries as a way to improve their decision-making process.

2.4 Budgeting and Economic Development Planning and Control

As the government's activities in the economic life of the country grow rapidly, its responsibility for better utilisation of available resources increases. The government's tasks consequently expand and need to be carried out effectively and economically. There are many competing claims facing the governments of today, but the resources are limited and a choice

between alternatives must be made.

In order to achieve the desired results to satisfy the public needs, good planning is becoming a matter of necessity. The increasingly important role of the government is well recognised in almost all countries. As indicated earlier, public expenditure has dramatically increased over time to become significant in the economic life of a country whether developed, less developed or under-developed. As a result, planning is becoming a normal activity which a modern government performs along with other functions.

Before World War Two, the Soviet Union was the only nation involved in planning on a continuing basis. Things changed after World War Two and planning became widely accepted as a normal activity, which governments perform in all countries. According to Waterston (1979) development planning has already acquired its orthodoxies and high priests.

In Western nations, the limitations and inadequacies of the market mechanism in performing certain functions have been realised. According to Chamberlain (1965) the market does not set social objectives, such as education and health, nor does it allocate resources between the achievement of such social objectives and the objectives of individuals and households. That must be done by political decisions. As a result, government intervention in the market is inevitable.

Thus, Western countries have felt the necessity to introduce planning to help them to achieve their national goals. Arguably France was the first western country to engage in planning by preparing its first annual plan in 1945/46 (Waterston, 1979). Later on, in the sixties, the U.K and the U.S.A have shown an interest in planning as a result of some economic difficulties (Chamberlain, 1965). The market, however, still plays a crucial role in the economics of the West. The purpose of introducing planning in such economies is to help the performance of the market, not to replace it.

2.4.1 Development Planning and Control

Economically, countries are classified into rich and poor countries, or more precisely, developed, less developed and under-developed economies. All poor nations are considered less and under-developed, but not all rich countries are developed. Striking examples of this are the oil producing countries, such as Kuwait and Saudi Arabia, which with their substantial amount of foreign exchange from oil revenue, are still less or under-developed economies. This fact supports the view that money is not the only requirement of a nation's economic development.

The governments of these less-developed and under-developed nations became aware of the needs and desires of their people and have a commitment to meet these desires. Therefore, such

countries have realised that development planning is the only hope to accomplish their national goals of rapid economic growth. Such growth is very necessary in order to improve the standard of living of the people and to narrow the gap between developed and other developing countries.

The development planning process must begin with a clear definition of national objectives. Normally, a number of objectives are determined and should be stated unambiguously, and in order according to their significance. Second, the size and scope of the plan must be decided. The plan may cover only a part of the economy or the whole economy. This is determined largely by the availability of resources in the country. Third, a determination of the period covered by the plan is essential.

There are three types of plans, a short-term plan (or annual plan because usually it covers one year only); a medium-term plan (from three to five years); and a long-term plan (over ten years). Fourth, a comprehensive list of the available resources, at present and in future, should be prepared for the whole plan period: this includes, materials, labour, machines, etc. Fifth, a forecasting of future events must be made and contingency plans should be available to meet any change which might occur. Finally, to make the plan more effective, a review of projects and programmes from time to time is required.

But, is a development policy easy to adopt by a country in the Third World? The answer is of course "No". In such a society a number of problems and difficulties are facing it.

These problems and difficulties need a lot of effort and examination of potential solutions, which sometimes are not found. As Tinbergen (1967) says:

"A development policy, forming part of a general economic policy, is both complicated and comprehensive. It must influence and direct the whole activity of a modern society in all its variety. This activity takes place partly in the public and partly in the private sectors of society"

In less developed and under-developed nations, the individual income is extremely low, the capital formation is very little and, in general, the standard of living is very poor. Therefore, adaptation of a development planning system would be essential to utilise the limited resources effectively for accomplishing desired ends. Development planning may be defined as:

"the preparatory evaluation and decision-making process of a forward-looking character for an economy, in which alternatives have to be measured, weighted and outlined, and priorities for the use of resources established." (Enthoven, 1973).

It aims to achieve two primary goals, economic growth, and social and cultural change. In general, most of the Third World countries are facing three major problems. These are, inadequacy of

information systems, lack of skilled personnel and low capital formation.

Many, if not most, of under-developed countries suffer from a very poor system of information (Goodman, 1974). An adequate system of information to supply necessary data on the economy as a whole is a very important factor in a planning activity. Information and data on both public and private sectors are necessary to make the best allocation of available resources through a development plan.

Furthermore, the accounting system in many of the Third World countries is very poor (Waterston, 1979). This makes the job of planners much harder since accounting is considered a major source of information in both public and private sectors. Accordingly, improvement in accounting systems and all financial control techniques are badly needed in such countries. Such improvements would result in more accurate and reliable data on the economy which will, undoubtedly, contribute to the effectiveness of development plans in those countries. Enthoven (1973) put the point well when he wrote:

"A well-organised accounting (and statistical) system is thus essential to the proper formulation, evaluation and execution of development plans and projects supplying information of a past, current and future nature, that is; accurate and realistic, complete, efficiently presented, and timely".

Thus, the availability of information about past and present activities is necessary for effective development planning.

The second major problem which may face a developing country is the shortage of qualified personnel and poor administrative machinery to prepare, implement, and evaluate development plans. As a matter of fact, successful planning requires an efficient administrative system. Lewis (1961) emphasised that, "development planning is hardly practicable until a country has established a civil service capable of implementing plans".

Therefore, less developed and developing nations which engage in planning activities have realised that improvement in their administrative system is very essential. They have adopted the policy of investment in human capital through education and training locally and abroad in advanced countries, in order to prepare more skilled personnel (Myint, 1973).

Finally, capital formation is another major problem facing developing countries. Indeed, capital formation is considered as one of the crucial factors to achieve economic growth. But increasing capital formation is not easy. Investment depends upon savings which are extremely low in these societies, simply because the per capita income is low. To remedy such problems, governments of such countries have adopted various policies to stimulate the necessary savings. The proper direction of such savings by government is also very essential in these countries

because often much capital is exported or put into unproductive areas such as real estate, the building of large houses, or the hoarding of gold (Enthoven, 1973). In this respect, government regulations and laws, and the establishment of investment companies may help to direct savings to more productive areas (Enthoven, 1973).

2.4.2 Relationship Between Financial Planning and Budgeting

The government budget is considered as the device through which a government carries on and controls its activities. In order to carry out such activities effectively and adequately, a budgeting system should be improved to cope with the tremendous increase in these activities. Accordingly, attempts have been made in this important field, aimed at improving the budgeting system in some developed countries such as the U.K and the U.S.A.

However, some budgetary developments, such as planning programming budgeting (PPBS) are considered by several writers as very difficult approaches to apply to government budgeting even in advanced economies. In developing countries, the experience with some budgetary reforms such as performance budgeting is not encouraging (Waterston, 1979). Nevertheless, the budgetary system in these countries needs to be improved to cope with the increased scope of government activities.

Government budgeting is regarded as the principal instrument of planning and control. Improvements in the field of budgeting

will result in more sound implementation of plans and will increase the efficiency of resource allocation. It is being realised that a good system of budgeting is very essential in order to carry out government duties more efficiently (United Nations, 1966). As a result, the field of budgeting has been a matter of great concern and a few major developments have been made.

According to Mosher (1954), the government budget has two basic purposes, policy and administrative. The policy purpose means: "The bringing of information to the proper level for the making of decisions, a category in governmental policies, programmes, and objectives." The administrative purpose refers to "Providing information both upward and downward so that those decisions will be properly carried out".

The budget's role in Western countries is of great significance. The budget in such countries is used as an indirect instrument for planning. Governments, through the budget, public expenditure and taxes, could direct the economic activities to achieve the desired needs and ends. As Lewis (1961) indicates, "the budget is not only an instrument available to planning, but it is the most important, the most powerful, and the most embracing".

In developing nations, government direct planning is a matter of necessity since budgeting systems are extremely inadequate (United Nations, 1966). The budget in these countries is not as powerful as in developed countries and planning through it can not be practised effectively unless it is improved.

At the present time, the objective of the budget in developing economies is to control the use of public money. Planning is performed separately by special agencies (Ministry of planning in Egypt for example). Modernisation of the budgeting process should be considered in order to make it more effective. This would improve the process of economic development and consequently the national goals could be achieved. Of course, this task is not easy to perform, but the experience of developed countries can be very helpful.

2.5 Summary and conclusion

Government activities have increased over time to achieve social, political, and economic policies for the whole economy. The expansion of government activities can be well-recognised by looking at the size of public expenditure nowadays. This was due to the intervention of government in the economic life of a society. Government intervention in the economic life of a country is achieved by the creation of the public sector to share the economic development with the private sector.

The size of government activities has made this task of decision-making more difficult and more complex. Government at all times is facing the problem of the increasing needs and desires of society, associated with the limitation of resources. The decision-making process in government's machinery is very important and it needs to be improved in all nations. The experience of advanced economies could be of great help to the Third World economies.

Planning is becoming a matter of necessity in the economic life of all societies. The purpose of introducing planning in the economy is to help the performance of the market and to utilise the limited resources efficiently and economically. The planning process must take in consideration a clear definition of national objectives to be achieved.

The government budget is the device through which a government carries on and controls its functions. To achieve the ultimate goals of budgeting, budget systems should be improved. In developing nations budgeting is being recognised as an effective means for planning and managing the economy to achieve national goals. Thus some developments took place in some of these countries to enable the budget to become a more powerful planning device. The Third World governments should try to get the experience of the developed nations in this field to improve the quality of their budgets.

CHAPTER 3

DEVELOPMENTS IN GOVERNMENT BUDGETING AND FINANCIAL CONTROL

3.1 Introduction

Chapter 2 examined government activities, the government decision-making process, and planning and control issues, and it explored how good government budgeting is greatly needed. In this chapter attention is given to the developments in government budgeting and financial control aspects. The government budget is the principal tool of financial planning and control in any government in the world. It is an instrument by which a government controls its expenditure and revenue. It is used as a means of translating the economic plans into requirements. Therefore, it is the only available source of information on the type and size of public expenditure and revenue.

As has been mentioned in the previous chapter, the importance of government budgeting has increased as a result of the growing role of government activities in almost every nation in the world. Consequently, governments have been under heavy pressure to improve their decision-making processes to cope with their growing role and to make the best use of their limited resources.

Naturally, the first thing which needs to be improved is the budget because of its obvious and dominant role in the financial and economic life of a nation. It has been realised that the traditional system of budgeting, as will be discussed later in this

chapter, is neither effective nor efficient. Thus, newer developments have occurred in the government budget to attempt to overcome the limitations and shortcomings of the traditional system of budgeting in order to have an effective and efficient budget. Such developments, however, have been considered by almost all societies.

The purpose of this chapter is to introduce a review of the processes of government budget developments mainly in the U.S.A and the U.K. ⁽¹⁾ This investigation is essential in order to evaluate the experience of such countries. Further, this review and evaluation will attempt to throw light on the potential of introducing some new techniques to improve the existing budgeting systems in less-developed and developing countries.

This chapter, therefore, is divided into four sections. First, a brief discussion of budgeting functions, second, a review of the stages of budgetary developments from conventional budget to programme budgeting (PPBS); third, an examination of the newer developments in budgeting process following the decline of PPBS in the early 1970s; and finally, summary and conclusion are presented in the last section.

(1) The British Experience will be discussed in more detail in Part Two of this study.

3.2 Functions of Government Budgeting

Every budget system has potentially three major functions to serve; these are financial control, managerial control and strategic planning. Schultze (1968) explains these functions as follows:

"Financial Control: the control of subordinate units to ensure that public funds are spent only for those objects or purposes specified by law and that appropriations are not exceeded. Observance of statutory restrictions, adherence to the fund provided in appropriations acts, and avoidance of corruption are the basic objectives of financial control.

Managerial Control: programming the use of resources, manpower, equipment, transportation, and the like to carry out an approved set of activities in an efficient manner. Procurement regulations that minimise purchase costs, work measurement programmes designed to raise output per man-hour, streamlining paper processing, and introduction of labour-saving equipment are among the typical activities encompassed by the management control functions.

Strategic Planning: establishing and specifying objectives, choosing among alternative programmes to achieve those objectives, and allocating

resources among those programmes. Strategic planning is concerned with determination of the kind and level of activities that managerial control seeks to carry out effectively."

The successful system of budgeting is one which perform these three functions effectively. Traditionally, greater emphasis had been given to the control function (the accountability concept) than the other two functions, management and planning. Of course financial control is an essential part in the budget process, but the planning of how resources are allocated among various activities and the ensuring of the efficient use of these resources are equally important. The budgeting system should be tailored to serve those purposes in order to obtain the full benefit from it.

Therefore, attempts have been made to improve the traditional budgeting. The aim was to introduce some new management techniques to make the budget a more effective and efficient tool for planning. Programme budgeting is considered to be the latest development of a continuous effort to improve the budgetary process. Through this system, planning, management and control are recognised as major functions to be performed by the budget. Schick (1966) has stated that:

"It should be clear that every budget system contains planning, management, and control features. A control orientation means the subordination, not the

resources among those programmes. Strategic planning is concerned with determination of the kind and level of activities that managerial control seeks to carry out effectively."

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"It should be clear that every budget system contains planning, management, and control features. A control orientation means the subordination, not the

absence of planning and management functions. In the matter of orientations, we are dealing with relative emphasis, not with pure dichotomies. The germane issue is the balance among these vital functions at central level."

In short, a good budget structure would enable the policy maker to make better use of available resources. It also helps to achieve the desired ends by using the most efficient means and it will ensure that money has been spent for the purpose to which it was originally allocated.

3.3 The Stages of Developments in Government Budgeting

As has been mentioned earlier many developed nations have long realised the inadequacy of the traditional system of budgeting as an effective management and planning tool. In the U.S.A, the first basic change in the budget process was in 1921 when the Budget and Accounting Act of 1921 was established (Schultze, 1966). According to Schultze, "until the 1920's, no overall executive budget existed and none of the three major functions of budgeting was effectively performed."

Another major budget development took place following the recommendations of first Hoover Commission. It recommended that "the whole budgetary concept of the federal government should be refashioned by the adaptation of a budget based upon functions, activities, and projects: This we designate a "performance budget"

(Smithies, 1967). The Budget and Accounting Act of 1950 was the result of these recommendations. Schultze (1966) observed:

"The budgetary reforms of 1920's were toward the financial control functions, while the reforms of the immediate pre-war and post-war years were directed toward the managerial efficiency function."

The final stage of the budgetary developments in the U.S.A started when the new system of programme budgeting was first introduced in the Defence Department in 1961 and in the whole Federal Government in 1965. At that time PPBS was considered as a revolutionary system in the management of government. This view was based on the success of the new system in the Department of Defence. Schick (1973) stated that, "in civilian agencies, the situation was different and the new system did not achieve the desired success, and the results of its application from 1965 to 1970 were not encouraging." This does not mean that the failure is wholly attributed to the concept itself. Rather, it is the procedures of application and the characteristics of the American system of government which contributed largely to its limited success. More will be said on this issue in section 3.3.3.4.

In the U.K, attention has been given to two aspects, long-term planning through the Public Expenditure Survey Committee (PESC), and analysis through Programme Analysis and Review (PAR). ⁽¹⁾ The importance of long-term planning in the government has been recognised

(1) Discussed in detail in the next chapter.

since the middle of the 1950s (Hirsch, 1973). The Plowden Report in 1961 recommended a more effective use of public expenditure by looking ahead over a period of years. More will be said on this in the next chapter.

According to Keeling (1972), Britain, in trying to avoid the faults which accompanied the introduction of PPBS in the U.S.A, has followed a somewhat limited approach to PPBS, that is, to concentrate on necessary analysis in depth and develop a study of resources under programme, without changing the planning and budgeting processes.

Also in Britain, unlike the U.S.A, there has not been any attempt to introduce PPBS to the whole of central or local government at the same time. Every department or authority has been left to decide whether to introduce the new system or not. According to Garrett (1972), PPBS was first introduced in Britain in the Ministry of Defence in 1963. Other departments include the Department of Education and Science and the Home Office. Furthermore, a number of local authorities such as the GLC, Gloucestershire and Coventry had applied the system and many others considered its future application.

In this section, the two major developments in budgeting in the U.S.A, performance budgeting PB and programme budgeting PPBS are presented and evaluated. The newer ideas which developed after the decline of PPBS in the early 1970s are presented in section 3.4. But before presenting performance budgeting and programme budgeting, a critical discussion of the traditional approach to budgeting seems in order.

3.3.1 The Traditional Budgeting

3.3.1.1 Characteristics of Traditional Budgeting

As has been indicated earlier in this study, the increasing role of government in the economic life has made government budgeting a basic tool for effective financial control of government resources. It had been realised for some time that the traditional system of budgeting was inadequate (United Nations, 1970).

Anshen (1967) has the following to say regarding the traditional system of the U.S.A Federal Budget:

"The present Federal Budget design is largely the product of an historical response to the need to safeguard the integrity of appropriation against careless, ill-informed, or malefficient administrators in the executive departments. It is an instrument for the control of spending. It was not designed to assist analysis, planning and decision-making, and it does not work well for that purpose. It is a conventional comptroller's budget, not a manager's budget."

As a result, attempts have been made to improve the budgetary system to meet the needs of decision-makers, in order to use the resources more efficiently.

A typical traditional budget has the following general characteristics:

First, expenditure is classified according to the types of resources purchased (inputs). It is an object expenditure classification, materials, equipments, salaries, etc. Also, the practice of the segregation between capital and current expenditure is not usually followed. In this type of budget, only the sum of the expenditure input is found, it does not consider the aim of the expenditure.

Second, in this system of budgeting, attention is given only to the next fiscal year. The government departments and agencies do not practice the habit of forward planning for several years ahead. Expenditure and revenue are estimated for one year only. Thus, there is no planning technique used since long-term planning is not practised.

Third, the main purpose of the traditional budget is to have an effective financial control over public expenditure and revenue. It shows the allocation of resources among different activities without indicating how these resources should be used and what are the expected accomplishments. This limited function of budgeting does not require an advanced accounting system in the government.

3.3.1.2 Shortcomings of Traditional Budgeting

By examining the above characteristics of the traditional budget, several shortcomings can be found:

1. The traditional classification system is not appropriate for the budget to be considered as a tool for plans implementation and for the purpose of economic analysis. To get the full benefit, the budget should be organised by both functional and economic classifications (Waterston, 1979). In other words, expenditure should be classified according to the objectives they serve (functions), and both current and capital expenditure should be segregated from each other. Waterston (1979) explains:

"For a budget to be a reasonably efficient instrument for plan execution, it must have a classification system which (a) permits allocations and expenditure to be related to specific projects, programs and other purposes in the plan; (b) distinguishes between capital and current expenditures and receipts, and shows the extent of public savings .. available for investment; and (c) distinguishes between development and non-development expenditures on both current and capital accounts. The classification system employed in conventional administrative budgets does not meet these requirements."

Also, functional and economic classification is an essential primary step toward the installation of an advanced system of budgeting such as performance budgeting or programme budgeting as will be explained later in this chapter. It is important to mention here that adoption of the new classification does not mean that the object of expenditure classification will not continue. Rather, the traditional classification would be a very significant factor in providing an effective control over the inputs used. Essentially, there is no conflict between the programme and activity classification and other types of expenditure classification (United Nations, 1970).

2. The second deficiency in the traditional budget is its limitation to one year only. The concentration on a single year weakens the role of the budget. Many of the present budget decisions to carry out various activities will lead to future costs incurred over more than one year. Without forward estimates of such costs, programmes and projects could be seriously affected, and the planned output not be achieved.

As Smithies (1967) has observed, the traditional budget period of a single year throws little light on the significance of expenditure whose effects may be spread over the next decade. Thus, in order to have an effective budget the time span over which expenditure takes effect should be considered in advance.

3. Little attention is paid to the identification of the department's objectives and goals. Failure to know these objectives would result in a misjudgement of the value of the

suggested expenditure. Accordingly, in order to review the effectiveness and value of expenditure, objectives should be specified. Such objectives will serve as a guideline in the process of performance evaluation.

4. The traditional government system of budgeting emphasises the concept of financial control over public expenditure. It lacks effective planning and efficient management of national resources. Thus, there is no standard performance which can be used as a guide in the course of budget execution. What is important is to ensure that any allocated resources have been spent as planned according to government regulation. Government budgeting according to Gross (1969) begins with indispensable efforts to promote "accountability" by preventing public funds being stolen, used for unauthorised purposes, or spent at uncontrolled rates that could lead to inflation or higher taxes.

5. Traditional system of budgeting does not concern itself with the expected physical output of expenditure. The result is that the effectiveness and adequacy of the proposed expenditure can not be determined in advance.

6. Alternative courses of action to achieve desired ends are not usually considered in this system. Without consideration of possible alternatives, the best means to meet the needs may not be obtained.

7. Finally, the absence of planning and management techniques in this system makes the task of government decision-making

much harder. Smithies (1967) observed:

"The traditional method is not and never has been adequate. The name of a department or a bureau is not sufficient to describe what it does. Nor are numbers or types of personnel employed an adequate measure of the functions they perform."

In response to those shortcomings, attempts have been made to improve the budgeting process to overcome them. The aim of these efforts is to make the budget serve more effectively its potential functions of planning, management and control.

The limitation of the traditional budget and its emphasis on financial control and accountability aspects have been long realised in developed countries, and several improvements have been attempted through the developments of some budgetary systems such as PPBS as will be seen later in this section.

In developing countries, it is a difficult situation. The budget system in many of these nations is still inadequate and does not serve the planning and management functions in the economy. The Department of Economic and Social Affairs of the United Nations has realised that by stating:

"The budgetary systems of many developing countries have failed to keep pace with the new demands made on them by the greatly increasing scope of activity of the public sector and, in particular, by adoption

of a planned approach to economic development. Thus, the need is first for the development of new types of information on the public sector essential for drawing up long-term development plans, and second, for changes in concepts and procedures in government budgeting required to make the annual budget an effective instrument for implementing the development plans and policies." (United Nations, 1970).

Accordingly, an urgent need to improve or even revise drastically the traditional budget to become more effective was recognised by many developed countries. Some budget specialists believe the traditional administrative budget must be replaced by an entirely new system, alternatively or synonymously called programme and performance budgeting. This form of budgeting attempts to classify budgetary transitions on the basis of government functions, programmes, projects and activities and to measure results achieved in physical, as well as in financial terms (Waterston, 1979).

Performance budgeting PB and programme planning budgeting PPBS are discussed here as two major reforms. And the newer trend in improving the budget process, after the decline in the use of PPBS because of difficulties in its implementation, is discussed in section 3.4.

3.3.2 Performance Budgeting (PB)

Performance budgeting was first applied to the government budget in the U.S.A following the recommendations of both the first and second Hoover Commissions in 1949 and 1955. It aims to attain greater efficiency in carrying out various government activities through a functional classification of budget and work measurement programmes. According to the US Bureau of the Budget, quoted by Burkead (1956):

"A performance budget is one which presents the purposes and objectives for which funds are required, the costs of the programs proposed for achieving those objectives, and quantitative data measuring the accomplishments and work performed under each program."

The major objective of performance budgeting is to improve the managerial control function of the budget. Functional classification instead of the traditional object of expenditure classification, is a primary requirement for installing a performance budget system. This classification, however, is not the only improvement in the budgetary system by adopting performance budgeting

Performance budgeting is much more than an improved system of classifying or presenting a budget. Whereas traditional budgetary procedures emphasise only the financial aspects of expenditure when a budget is formulated, executed or audited, the distinguishing feature of performance budgeting is that it seeks whenever possible

to measure the results achieved in physical or real, as well as financial, terms (Waterston, 1979).

An adequate accounting and reporting system is a matter of necessity to enable the management to determine unit costs and to set standards of performance for each work unit. These standards are compared with the actual results to evaluate the efficiency of carrying out specific activity. This type of cost system is highly developed in business accounting where cost accounting is used as a very effective managerial tool. In developed countries, there have been improvements in the government accounting system and in cost techniques as a result of introducing this newer system of budgeting. The traditional government accounting system does not adequately indicate the relationship between expenditure and results, and thus, prohibits the formulation and execution of an economically meaningful budgetary policy. Budget orientation has major implications for government accounting systems and techniques, as it involves an expansion from the accountability posture of the budget towards the processes of work, i.e. a managerial decision-making focus concerned with the efficient performance of activities (Enthoven, 1973).

Performance budgeting emphasises the importance of the work to be achieved, not the resources to be utilised. In other words, it emphasises efficiency rather more than the accomplishment of objectives of a programme. This newer orientation of the budget recognises its managerial control functions, that is, the efficient use of resources. The planning process, however, is not emphasised in this system of budgeting.

Rose (1969) has identified the following elements of performance budgeting:

- "1. An accounting structure primarily based on functions, activities, sub-activities, etc.
2. Particular emphasis upon development of personnel within each of those categories, although other elements of cost are by no means ignored.
3. The use of work measurement techniques to arrive at available yardsticks of output for as many activities as possible.
4. The establishment of convenient units which relate outputs to inputs.
5. Work standards are then created so that departmental managers assist in the preparation of budgets which envisage performance levels as well as cost limits.
6. During the financial year reports are issued which compare total outputs, total input and rate of performance against the standards incorporated in the adopted budget.
7. During the budget preparation cycle, requests for additional staff, and even the justification for current staff levels have to be supported by evidence of reasonably anticipated work-loads in the light of agreed work standards."

As has been mentioned before, performance budgeting has been adopted by many developed countries. But the Phillipines is the only known developing country to try and adopt PB approach by learning from the American experience in this respect (Parson, 1957). Perhaps the most difficult problem facing a developing country when considering the introduction of such a system is the shortage of skilled personnel such as economists, accountants and statisticians.

3.3.3 Programme Budgeting (PPBS)

As has been indicated earlier, the need to incorporate planning and programming as an integral part of the management control process in government began with the recommendation of the Hoover Commissions that expenditure be classified and considered in terms of programmes rather than by agency or objective. This study and others like it eventually led to the implementation of the planning-programming-budgeting system (PPBS) in the U.S.A. Department of Defense by the Rand Corporation in 1961 (Garbutt and Minnier, 1974). In 1965, President Johnson directed steps to implement PPBS in the remainder of the agencies of the federal government and at the same time encouraged state and local governments to adopt this system. Clearly, the success of the new system in the US Department of Defense was the prime reason behind the President's decision.

The objectives of PPBS as adopted by the American federal government were stated by the US Bureau of the Budget in its

Bulletin 66-3 of October 12th, 1965 (Schultze):

"The overall system PPBS is designed to enable each agency to:

1. Make available to top management more concrete and specific data relevant to broad decisions;
2. Spell out more concretely the objectives of government programmes;
3. Analyse systematically and present for agency head and presidential review and decision possible alternative objectives and alternative programmes to meet those objectives;
4. Evaluate roughly and compare the benefits and cost of programmes;
5. Produce total rather than partial estimates of programmes;
6. Present on a multi-year basis, the prospective costs and accomplishments of programmes;
7. Review objectives and conduct program analysis on a continuing year round basis, instead of on a crowded schedule to meet budget deadlines."

PPBS as a management system aims to provide the decision-maker with the necessary information to make the best use of available resources. It is unlike performance budgeting (PB)

because while performance budgeting emphasises the importance of increasing performance efficiency, PPBS emphasises the output of a given level of expenditure, i.e. the effectiveness of a particular programme in achieving a given objective. In a PPBS context, all foreseeable future implications of current decisions are considered (Cotton and Hatry, 1976).

PPBS, unlike traditional budgeting, has three dimensions, resources (inputs), programmes, and time. That is, every stated objective requires resources, e.g. manpower and equipment; programme(s); and a period of time to be accomplished (Cleland and King, 1968). These three dimensions of a PPBS are illustrated in figure 3.1. Therefore, long-term planning is one of the major elements in a PPBS. Indeed, PPBS attempts to make a major clear relationship between planning and budgeting. Such a close relationship is very essential for its effectiveness. PPBS relates three factors: a desired outcome (planning), the structuring of methods of achieving the outcome (programming) and the funds available to accomplish the end result (budgeting). It is predicated on the dominance of the planning function and attempts to make government operations more efficient and effective by improving the allocation of public resources between competing needs. Figure 3.2 below shows the processes of planning and management control within the PPBS.

But while most writers agree that the process of planning and budgeting should be integrated for the better use of resources, Keeling (1972) seems not to do so when he indicates that planning

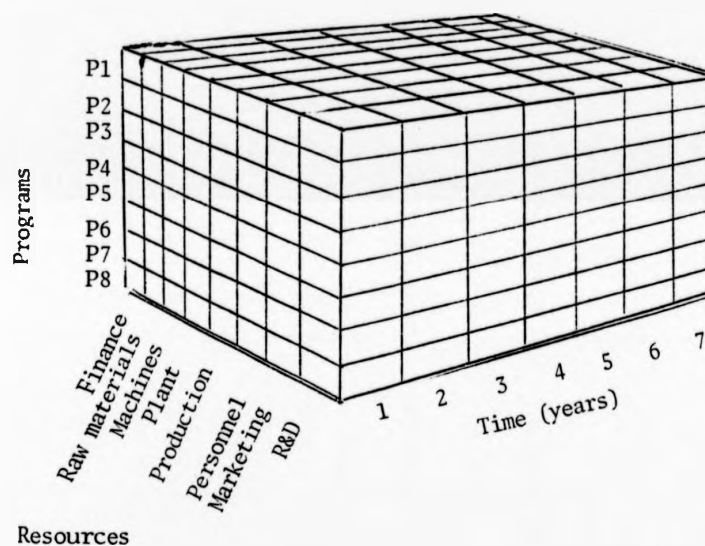
because while performance budgeting emphasises the importance of increasing performance efficiency, PPBS emphasises the output of a given level of expenditure, i.e. the effectiveness of a particular programme in achieving a given objective. In a PPBS context, all foreseeable future implications of current decisions are considered (Cotton and Hatry, 1976).

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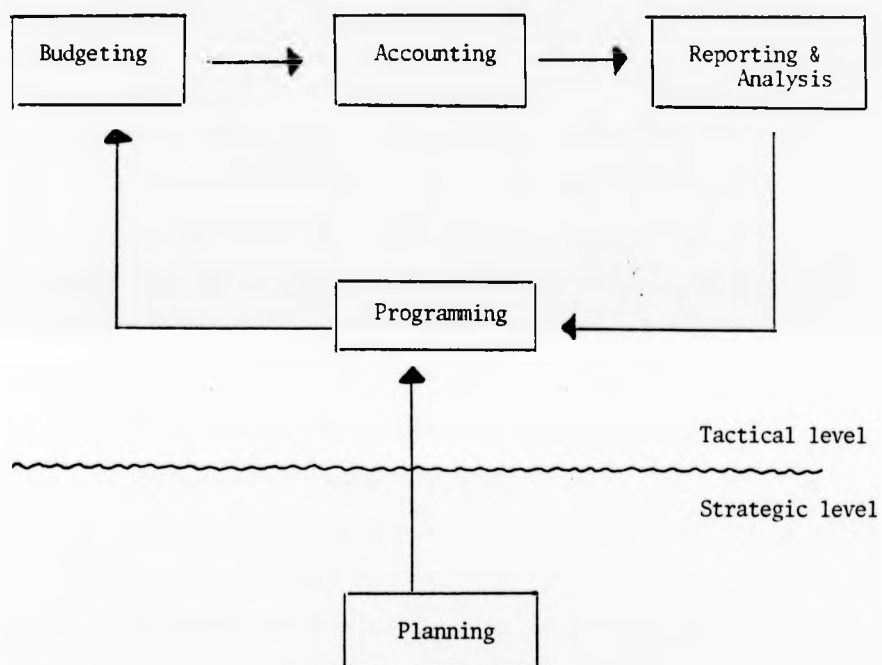
Figure 3.1

The three dimensions of a programme budgeting system.



Source: Cleland, D.I., and King, W.R., System Analysis and Project Management, New York, McGraw-Hill Book Com., 1968.

Figure 3.2

Planning and Management Control within the PPBS

Source: Garbutt, D., and Minmier, S.G., "Incremental, Planning-Programmed and Zero-base budgeting," CIPFA, Public Finance and Accountancy, Vol. 1, No. 11 (November, 1974).

and budgeting are different processes in purpose, ambit, concepts and conventions. The most one can ensure is that the two processes are mutually consistent in a general way. Integration is not, and perhaps should not or cannot be, complete.

It is appropriate to mention here that there is little if anything really new in any of the elements of PPBS. What is new is the attempted reconciliation of planning, programming and budgeting within one comprehensively organised approach or system. Enthoven (1973) explained more clearly the aim of a PPB system:

"PPBS attempts to integrate planning-budgeting-accounting-reporting-stewardship into one coherent and integrated system. Its aim is to cover the regular annual budgetary routine to an evaluation and formulation of projects in the light of future objectives and policies, and to establish such policy-making on a more national footing by means of data on individual and/or social costs and benefits of alternative ways and output measurements for the attainments of certain objectives and needs."

The purpose of PPBS is to relate objectives to resources in order to accomplish the desired output. The fact is that resources are limited with competing needs. Effort must be directed towards the goal of using these resources effectively and efficiently to achieve objectives. By using PPBS, objectives are determined and

all alternative courses of action to attain these objectives are systematically examined to choose the ones which contribute most to the accomplishment of those objectives. Perhaps the main advantage of a PPB system is the fact that it enables the decision-maker to consider all possible means in order to achieve certain goals at the minimum cost. The best alternative(s) can not be chosen unless all alternatives are considered.

It is important to note that PPBS is not a substitute for human judgement and wisdom. Rather, it assists decision-makers by providing more efficient information. It does not in itself provide answers to problems or make decisions for managers. It will not displace management judgement, wisdom or experience. PPBS will not judge performance, but, it will enlighten major decision issues and help managers to manage better (Anshen, 1967).

The fact is that there is no standard meaning of a programme budget (Merwitz, 1971). It has been defined in several ways by different writers. Three basic aspects, however, are found in most PPBS definitions; these are structural, analytical and informational aspects (Steiner, 1967).

3.3.3.1 Structural Aspects

The structure process consists of two basic elements, the setting of goals and objectives, and the structure of programmes on a long-term basis. The objectives of the organisation should

be defined as clearly as possible and in an orderly manner. They are based on the question of what the organisation is trying to accomplish in the light of its needs, opportunities and resources. Thus, the aims and purposes of the establishment are very important and should be identified very clearly before the design of the programme structure.

A distinction between intermediate and final objectives should be made. Objectives should also be reviewed annually and brought up to date in the light of any new circumstances. At the final stage, actual output is evaluated against objectives to see whether these objectives have been accomplished, and to learn how continuing objectives need to be amended for feasible attainment. The task of setting the organisation's objectives is the cornerstone for the whole process of PPBS. It is not, however, an easy task because not all the objectives of an organisation or department could be defined clearly. As Garrett (1972) says, "the aims of government departments are both more complex and diffuse than those of businesses and few have been put in writing. They usually have to be distilled from legislation and regulations, ministerial statements and the proceedings of official inquiries and parliamentary committees."

Indeed, this difficulty was one of the basic problems which faced most of the government departments in the USA, when PPBS was introduced. As Rose (1969) put it "officials find it very difficult to identify their final objectives or goals, firstly because they have not been called upon to do so in specific terms before, and secondly, because this really is a difficult exercise

when so many public services are intimately associated with abstract expressions of social welfare or common good."

Next comes the design of programme structure. The programmes are the product of the grouping of expenditure on an output-orientated basis. Programme structure aims to link activities to objectives in such a way that activities are classified according to the objectives that are to be achieved. It is a way of organising information with the objective of revealing how much is being spent for each purpose. This objective is to be attained by classifying expenditure in terms of programmes regardless of which agencies spend the money or what kind of things the agencies buy (Merwitz, 1971).

In a programme structure context, government expenditure is classified into different functions. These functions, in turn, are divided into programmes. Every programme is divided into activities. Functions are the major divisions of government which have different types of services to offer to the people in order to achieve the major aims of the government education, health and defence are examples. Within each function, e.g. education, a set of programmes are developed to meet certain objectives of that function. Finally, every programme consists of several activities which identify homogeneous types of work carried out by subsidiary organisations to produce the end products of the programme.

In the following table, a programme structure for the management of a statewide alcohol-related mission in the State of California, USA, is given as an example of programme structure (Churchman and Schainblatt, 1969).

TABLE 3.1

- I. Prevention of Alcoholism
 - A Education
 - B Law and economics
 - C Research and developments

- II Restoration of Early-State Alcoholics
 - A Detection
 - B Diagnosis, evaluation and referral
 - C Treatment, medical
 - D Rehabilitation
 - E Research and development

- III Care of Chronic Alcoholics
 - A Detection
 - B Diagnosis, evaluation and referral
 - C Treatment, medical
 - D Rehabilitation
 - E Domiciliary care
 - F Research and development

IV Control of Other Alcohol Problems

- A Dependent families
- B Employment-related
- C Drinking and driving
- D Public intoxication
- E Felonies associated with drinking
- F Under-age drinking
- G Personal injuries

*

V General Research

- A Medical research
- B Behavioural science research
- C Operational research

*

VI General Support

- A Surveillance and measurement of alcohol problems
- B Planning and evaluation at state level
- C Planning and evaluation at community level
- D Other

* Considered to be unallocable to programme I through IV.

Programme structure is a very essential and fundamental step in programme budgeting. As Smithies (1967) put it "the way in which a programme structure is set up for the government as a whole, or for any major segment, can have profound effect on the

decisions that are reached, so that the design of programmes should be regarded as an important part of the decision-making process."

The design of programme structure, however, is both complex and difficult, according to Lee and Johnson (1977):

"The development of program structure is difficult. This is made evident simply by the fact that effort at constructing program structure date back more than half a century, but the "perfect" structure has yet to be devised..... Part of the problem in designing the structure is the need to develop an all-inclusive one which at the same time is not overly detailed, particularly in terms of numbers of levels. Each additional level by definition increases the complexity of the structure."

There is no single programme structure which fits all departments or local authorities. Every organisation needs a programme structure which meets its requirements. Even in one organisation, a programme structure needs to be reviewed from time to time to make the necessary adjustments as a result of environmental changes. Thus, programme structure, if it is to be effective, must be flexible.

In the United States, the Bureau of the Budget in its Bulletin No. 66-3 dated October 12th, 1965, instructed the

agencies to adopt the following programme structure:

"(1) Program categories are groupings of agency programs (or activities or operations) which serve the same broad objective (or mission) or which have generally similar objectives.)

(2) Program sub-categories are sub-categories which should be established within each program category, combining agency programs (or activities or operations) on the basis of narrower objectives contributing directly to the broad objectives for the program category as a whole.

(3) Program elements are usually sub-divisions of program sub-categories and comprise the specific products, i.e. the goods and services, that contribute to the agency's objectives."

As has been said before, it should be kept in mind that no one programme structure is considered as a standard design to be followed by every department. What is important is that programmes are classified according to an objective-orientated basis and each programme is divided to sub-programmes or activities which contribute directly to objectives. This type of classification would enable the analyst to make better use of various programmes in terms of costs and effectiveness.

3.3.3.2 Analytical Aspects

The second basic element in programme budgeting is the analytical process. The principal purpose of this process is to identify and examine alternative courses of action in terms of costs and benefits or effectiveness, and their implications, in a systematic way. Thus, it is very essential to determine all the facilities, materials and staff required to carry out a specific programme. Report No. 7 of IMTA (1971) defines the process of programme analysis as:

- "i systematic identification and measurement of community's needs and sytematic appraisal of existing resource allocation
- ii identification of all alternative methods of achieving the ultimate objectives desired from the needs
- iii comparative (quantitative and qualitative) evaluation of the total social and economic costs and benefits of those alternatives."

According to Rose (1969), the essentials of good analysis are clearly-defined objectives, suitable criteria to choose between alternatives, a number of alternative courses of actions, determination of costs and benefits of each alternative, and judgement and intuition. Judgement and intuition are needed in designing the models; in deciding what alternatives to consider;

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what factors are relevant; what the interrelations between these factors are, and what criteria to choose; and in interpreting the results of analysis (Quade, 1968).

In this analytical process, the use of one or more analytical techniques, such as cost-benefit analysis, are usually required to choose between alternatives. The choice between alternative courses of action is a key feature of a PPB system. There are usually two possible approaches that an analyst may adopt to decide between alternatives (Hovey, 1968).

The first one is called the economy approach or the fixed utility approach. This economy approach is used when a specific target of effectiveness to be achieved is identified. Thus, the aim here is to choose the course of action which aims to achieve that target with the lowest costs.

The second approach is called the efficiency approach or the fixed budget approach. This approach is used when there is no fixed target of effectiveness to be achieved but there is a fixed amount of resources. In this case, alternatives are examined and evaluated in order to choose the alternative which produces the maximum benefits.

Cost-benefit analysis and cost-effectiveness analysis are the two techniques which have been applied to the problem of choosing between alternatives in government programmes. The cost-benefit analysis technique aims to help the decision-maker

to choose between various alternative projects to meet certain objectives. To apply the cost-benefit analysis technique, it is important to know:

- (1) the various types of costs and benefits which should be included in the analysis;
- (2) the basis of evaluating and measuring these costs and benefits;
- (3) the discount rate used to determine the present value of future costs and benefits; and
- (4) the relevant physical, legal, administrative and financial constraints (Prest and Turvey, 1965).

Costs and benefits, which are measured in money terms, can be divided into internal and external classes. Internal costs and benefits refer to the project's costs and benefits obtained by the organisation. External costs and benefits are those which accrue to bodies other than the promoting body.

An important feature of the cost-benefit analysis techniques is that all the advantages and disadvantages, as viewed from the standpoint of society, should be considered. Some of these have a market value, whilst others do not. That is one of the most difficult aspects of cost-benefit analysis. Thus, unlike project evaluation in private enterprise, a cost-benefit analysis attempts

to choose between various alternative projects to meet certain objectives. To apply the cost-benefit analysis technique, it is important to know:

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to consider all external effects in terms of costs and benefits to the community. As an illustration, consider table 3.2 below which shows some examples of internal and external costs and benefits of a transportation programme.

Table 3.2

Example of internal and external costs and benefits

Examples	Marketable		Non-marketable	
	Advantages	Disadvantages	Advantages	Disadvantages
Internal	Savings in operating costs through road improvement measures	Construction costs	Reduction in accident costs through a new motorway	Drivers' time losses through road congestion
External	Raising of land value through "opening-up" areas	Lowering of surface water level through river diversions	Growth stimuli for adjacent industries	Air pollution or noise disturbance

Source: George, H., Cost-Benefit Analysis and Public Investment in Transport, London, Butterworth, 1973.

Having measured the total costs and benefits for each alternative, the ratio of benefits to costs can be determined. The project which yields the highest ratio would be selected. At this point, a word is in order about the difficulty of measuring intangible costs and benefits. As table 3.2 shows these include internal as well as external effects. Thus, one of the most difficult problems in using this technique is how to measure, in money terms, the benefits of, for example, the reduction in accident costs or the cost of noise disturbance as a result of a new motorway. The identification and measurement of such not-easily-quantifiable elements in cost-benefit analysis is very important since they can constitute a significant part of the costs and benefits of many government projects and the results are highly suspected in terms of the bias of analysts or their political bosses.

The cost-effectiveness analysis technique is similar to the cost-benefit analysis technique except in one aspect, that is, the output is measured in units other than costs, e.g. deaths prevented, children educated and families housed (Hovey, 1968). Because of the difficulty in measuring the output of government services in money terms, cost-effectiveness analysis is widely used in evaluating potential governments' programmes. Although these types of analytical tools have several limitations in their application to public programmes, they would play an important role in some cases. As Wildavsky (1966) puts it "cost-benefit analysis may still be important in getting rid of the worst projects. Avoiding the worst where one can not get the best is no small accomplishment."

Finally, as indicated earlier, it should be borne in mind the fact that these types of techniques are just a guide to help the decision-makers who must have good judgement and intuition to make the right decisions. What a decision-maker needs to know are the consequences, costs and benefits of his choices to sharpen his judgement and intuition. And this could be assisted by using such techniques.

3.3.3.3 Information Aspects

The third major element of programme budgeting is an efficient and comprehensive information system. Information and data are required for two main purposes. First, to provide the necessary data needed in the structural and analytical processes to identify objectives, to design programmes, and to identify and analyse alternative courses of action for accomplishing desired objectives so that the most effective and least costly alternative could be selected. Second, to measure and analyse the success and failure of programmes and projects in achieving the prescribed objectives.

The effectiveness and adequacy of an information system depends to a large extent upon a good system of accounting in the government. Such a system will be able to provide the data needed which assists the decision-maker to plan, evaluate and control the use of limited resources. The traditional aim of governmental accounting has been to meet the accountability requirements.

But, in relation to today's requirements, this traditional concept of accountability is somewhat narrow in its scope, since it relies upon the almost exclusive use of organisation-cum-object classification in government accounting and budgeting. While those basic needs still remain unchanged today, accounting is being recognised increasingly in the fullest sense as a service to management. As such, it must be developed not only to satisfy accountability requirements but also to provide the various types of financial data that are essential for such purposes as planning, programme analysis and selection, budgeting, efficient management at the various levels of government and control of costs and performance in relation to approved plans (United Nations, 1970).

An essential part of the modern concept of accounting is a cost accounting system, which is needed to measure unit and total cost for the various programmes. Also, the availability of cost data would make it possible to develop standards of performance so that the actual performance could be evaluated against those standards (Enthoven, 1973). The significance of cost information in programme budgeting has been emphasised by the US Controller General (Quoted by Enthoven, 1973):

- "1. Cost information is necessary for the development and selection of the mix of inputs.
2. Cost information is necessary for control of the programmes.

3. Cost information provides some quantitative basis for evaluation where possible benefits can not be measured and compared.
4. Cost information is necessary for traditional fund account purposes."

To sum up, programme budgeting as a management system seeks to improve the decision-making process to make better allocation of available resources. It does not make decisions, it does not replace good judgement and intuition, it is only a means of assisting the management to make better decisions. The effectiveness and the success of such a system depends upon several factors. A well-developed long-term planning structure, a good information and data system, a sufficient analytical capacity, a functional and economic classification system of the budget, and certain levels of managerial skills are fundamental requirements for a successful programme budgeting system.

3.3.3.4 Evaluation

Generally speaking, there are two major difficulties in implementing a programme budgeting system for government activities; the difficulty of defining objectives, and the difficulty of measuring outputs or benefits. It is a well-known fact that the objectives of government departments or local authorities are more complex and more difficult to define than those of business firms.

Unlike the business enterprise, the government department does not aim to make or increase profit. Every government unit is working toward achieving a certain set of social, cultural and economic objectives as a part of an overall national objective, e.g. economic development. Thus within a programme budgeting context, a government department is faced with two major problems. The first is how to define the overall objective and sub-objectives of the department, and how to carry out the various activities to accomplish those goals. The second problem is how to measure the output of such activities to find out how effective they were in achieving the department's objectives.

Undoubtedly, the success of PPBS at the US Department of Defense was the main drive for the President's decision to introduce the new system to the entire federal government in 1965. Unfortunately, PPBS did not achieve the success that was expected. Thus, the American experience with programme budgeting had produced both positive and negative results. A brief examination of the reasons behind these contradictory outcomes seems in order.

In the US Department of Defense, the development of PPBS resulted in the more effective use of the available resources (Schick, 1973). This successful story of the system can be attributed to three main factors.

First, the Secretary of Defense at that time came from the private sector with a strong belief in the value of analytical techniques in improving the quality of allocation decisions in

government departments. He was very aware of the limitation and shortcomings of the traditional budgetary system. Programme budgeting was considered to be the ideal approach to adopt. The support of the man at the top and his belief in PPBS, therefore, played a major role in its effectiveness in the department (Schick, 1973).

Secondly, the Department at that time employed the required analytical skills to develop and implement the new system. Thus, analytical studies, which are the cornerstone for any effective PPB system, were carried out for the defence programmes by highly qualified economists and system analysts. Hence the two major obstacles to a PPBS, which were mentioned earlier in this section, were overcome as a result of these analytical skills.

Thirdly, the PPBS at the Department of Defense was carefully designed to meet the problems and functions of the department. The people there did not adopt a foreign and ready-made system of PPBS. Moreover, the organisational changes in the department during the 1950s had paved the way for PPBS to complement the structure of the department (Schick, 1973). On the other hand, the unsuccessful attempt by civilian departments to install a PPB system can be attributed to three major factors. They are: the characteristics of the American system of government, the way in which PPBS was introduced, and the difficulty of applying the analytical techniques to government programmes, mainly because of a shortage in skilled personnel.

As regards the American system of government, the existence of federal, state and city governments with their different laws and legislations has impaired the effectiveness of programme budgeting (Anshen, 1967). Also, the Congress insisted that the budget should be submitted in the traditional form. Thus, departments and agencies had to seek their funds on this basis and not on a programme basis (Garrett, 1972). Furthermore, the Congress resisted any attempt to develop a system of long-term expenditure planning which is considered a very essential part of any PPB system (Garrett, 1972).

The second reason behind the poor achievement of PPB system in the federal government is related to the way in which the system was introduced. There is little doubt that the decision to introduce a standardised and ready-made system of PPB to all departments and agencies at the same time without sufficient preparation was a major factor in its failure (Schick, 1973). As Garrett (1972) pointed out, "considerable harm was done by the way in which PPBS was introduced". Indeed, PPBS was considered by the civilian departments as a foreign system imposed upon them by the Bureau of the Budget without giving them the chance to understand it or to consider it within their ability and with reference to their problems, and without providing the opportunity to relate the new concept to their existing budgetary process (Garrett, 1972).

As a result, PPBS in the US Federal Government was officially terminated in 1971 after five years of operation. The official death notice was issued by the Office of the Management and Budget on the 21 June, 1971, in a memorandum accompanying circular A-11. According to that memorandum, "Agencies are no longer required to submit with their budget submission the multi-year programme and financing plans, programme memoranda and special analytical studies" (Garrett, 1972).

But, although the success of PPBS as applied by the civilian departments was not as expected at the beginning, some benefits have been obtained. Mosher (1973) lists the following achievements:

- "1. Forcing, or at least encouraging, a more clearly defined and thoughtfully considered statement of objectives;
2. Forcing the development of indicators and quantitative measurements of outcomes of governmental programs;
3. Encouraging the development and installation of a better system for gathering information about both costs of programs and their effects."

Also, Hancock (1971) had the following to say "If I had to sum up my overall assessment of the American experience

to date, I would say that it has shown that PPBS has the potential to make a significant contribution to the improvements of the planning, decision-making and management control processes in government and other non-profit making organisations."

As for developing countries, the system of budgeting which exists in most of those countries is still based on a traditional concept. To use their limited resources more efficiently and more effectively, they must improve their budgeting procedures. In many of these countries the integration between development, planning and budgeting does not exist. It is widely agreed that a more close relationship between planning and budgeting must be achieved.

Herman (1962) pointed out that:

"Long-range planning without regard for realities of annual budget implementation becomes an academic exercise of little operational value; budget-making which disregards the co-ordinated needs of the development plan tends to fragmentize the energies of the nation and to retard progress toward national objectives."

Therefore, there are several pre-requisites for the successful introduction of a new budgetary system in a developing country, but there is one important point to be emphasised here.

That is, a critical examination of the existing system of budgeting and a careful evaluation of the organisational structure and its ability to accept such improvement must be first made. As Enthoven (1973) argues:

"Before more refined budgetary systems are installed, a careful appraisal should be made of their potential for the country, without abandoning the conventional budget Basic accounting skills may first have to be improved, and the staff and organisational structure strengthened. Although PPBS is as yet very complicated for many countries, especially developing nations, it is a goal towards which the budget accounting system should be geared in the years ahead."

Perhaps, the British experience in developing a successful system of long-term planning for public expenditure (PESC) and a system of programme analysis offers a valuable example to be studied¹ by developing nations.

At the end of this section there are some gradual changes that could be proposed to take place before a commitment to full system of PPBS be made:

(1) Discussed in some detail in the next chapter

1. The existing accounting system should be improved to play its important role as the major source of information and data for both purposes, analysis and evaluation.
2. Public expenditure planning should be performed on a long-term basis and should include all of the public sector.
3. A functional and economic classification system of the budget should be adopted. According to this system, expenditure is classified according to the objectives it serves, (functions, programmes, and activities), and both current and capital expenditure are segregated from each other.
4. A close link between planning and budgeting must be established. The annual budget is a detailed financial statement which should be prepared from the long-term plans. Therefore, without co-ordination between these two functions, neither will be effective.
5. Making provisions for training governmental staff to cope with the new responsibilities.
6. Development of an adequate analytical capacity to carry out the task of programme analysis.

3.4 Newer Developments in Government Budgeting Process

As a result of the difficulties and problems faced by government departments and local government in applying the PB and PPBS, the newer trend is to look for a less sophisticated, but still effective, approach to improve government allocation and management control decisions. Management by objectives (MBO) and zero-base budgeting are two promising approaches which have been considered by government departments and local government in the USA as well as in the UK. These two concepts are briefly discussed in the following sub-sections.

3.4.1 Management by Objectives (MBO)

Management by objectives is another attempt for increasing the quality of government services. It is a part of continuing search for management approaches to answer the classic political question, that is "what should government do? and how?" (Newland, 1976).

MBO has had a long history in the private sector, as early as 1920 when it was used by Dupont Company and later by General Motors in the mid 1920s (Drucker, 1976). The failure of public sector administrators to examine carefully the implication of business management models for public sector administration is clear (Jun, 1976). Therefore, MBO has a more recent history in the public sector organisations. After the bad results of PPBS application in the US Federal Departments in the early 1970s, MBO was under serious consideration by government departments as an appropriate approach for more efficient government services.

The successful application of MBO in the US Department of Health, Education and Welfare (HEW) and its positive results since 1971 indicates the potential of MBO as an effective approach in managing the government services (Brady, 1976). In 1973, MBO was formally introduced to 21 federal agencies, as an uncomplicated results-oriented approach both to federal programme co-ordination and effectiveness (Newland, 1976).

According to Brady (1976), the goals of MBO as implemented in the HEW Department were:

- "1. To identify clear, measurable objectives.
2. To monitor progress toward objectives that had been agreed on by both managers and policy makers.
3. To effectively evaluate results. "

Although the Department had faced some problems in defining objectives and measuring benefits, MBO has proved to be extremely helpful in managing the affairs of HEW (Brady, 1976).

According to Basey (1975) one experiment in management by objectives was undertaken in the teachers' branch of the British Department of Education and Science. When the idea of introducing management by objectives was raised in 1969, the teachers' pension branch contained 200 staff and was responsible for all aspects of the statutory superannuation scheme for teachers, in England and Wales. This included the investigation of service and

eligibility for pension; the implications of interchanges between teaching and other kind of pensionable employment; the purchase of 'added years'; the collection and repayment of superannuation contributions; and award of age and infirmity pensions and death gratuities. At first sight, this seemed to be the kind of regular and continuing clerical activity that would be improved in performance by the introduction of management by objectives.

Generally speaking, an MBO system consists of three basic elements; setting objectives, tracking progress, and evaluating results (Newland, 1976). Setting the organisation's objectives is difficult but a very crucial step in the MBO system. This task is obviously more difficult in a public organisation. Unlike the private sector, in the public sector the objective of maximising the return on investment usually does not exist, and when it does exist in some cases it would be considered as a secondary rather than primary objective. The primary objective of a public sector organisation is to provide sufficient services or goods to meet public needs. In this stage the decisions to allocate the necessary resources are also made to accomplish those objectives in the following fiscal year.

Monitoring progress is the second stage in the MBO approach. Here progress is tracked in a regular basis, e.g. every month throughout the year, to measure the progress toward accomplishing objectives. Perhaps there should be some emphasis

that good MBO objectives and measuring of performance, need to be objective, quantifiable, and reliable (not open to suspicion of inaccuracy). Such practice would ensure that any mistake could be overcome before it would become too late to take the right decision.

The third and final stage is the evaluation of actual results against objectives. In this process the success or failure of the organisation in accomplishing its objectives is reported at the end of each fiscal year. Reasons for failing to meet any objective must be clearly stated so that future failure can be avoided. Information obtained in this stage and the previous process are very valuable to the first stage, setting objectives.

Having described briefly the three main stages of an MBO system, it is necessary to mention an important characteristic of the MBO approach which makes it a different approach from programme budgeting system. This was observed by, among others, Sherwood and Page (1976):

"..... it (MBO) is not a "whole" system for managing. It is an instrument with basic elements of planning, co-ordination and appraisal of performance. In public and private organisations, MBO is used primarily for short-range (tactical) planning of operation."

Thus, in this sense it can be said that MBO, like performance budgeting, is concerned with efficiency. At this point, it is appropriate to make a comparison of MBO and PPBS. The following table gives a clear and simple comparison between the two approaches. Also in figure 3.3 below there is a schedule which illustrates how PPB and MBO were related in the US Department of Defense.

Table 3.3

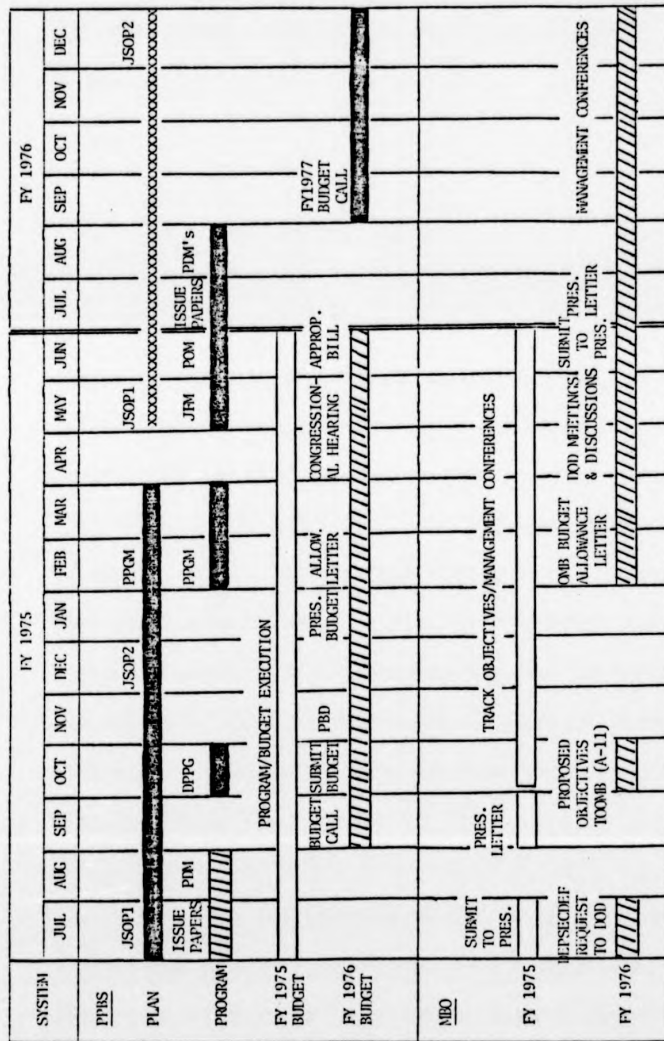
Comparison of PPBS and MBO Models

Model Aspect	PPBS	MBO
Planning	Comprehensive, five-year plans	Partial, annual, some five-year plans
Authority structure	Centralised, staff	Decentralised, line
Expertise demands	Statistical sophistication	Managerial commonsense, arithmetical
Program comparison capacity	External, benefit/cost	Internal, quantity produced
Fiscal coverage	Comprehensive and allocation	Partial, person days and some supporting costs

Source: McCaffery, J., "MBO AND THE FEDERAL BUDGETARY PROCESS", Public Administration Review, Vol.36, No.1 (January/February 1976).

Figure 3.3

PPHS - MR) in the U.S. Department of Defense



☐ FY 1975
 ☐ FY 1976
 ☐ FY 1977
 ☐ FY 1978

JSOP : Joint Strategic Objectives Plan (JCS)
 DPMG : Defense Programming & Planning Guidance (OSD)
 PPM : Programming & Planning Guidance Memorandum (OSD)
 JPM : Joint Forces Memorandum (JCS)

IOM : Program Objectives Memorandum (Services)
 PIM : Program Decision Memorandum (OSD)
 PBD : Program Budget Decisions (OMB/OSD)

Source : Newland, C. A., Policy/Program Objectives and Federal Management: "The search for Government Effectiveness," Public Administration Review, Vol. 36, No. 1 (January/February 1976)

To conclude this section a word about MBO seems in order. MBO is not a self-contained process. It can be used with greatest effectiveness only when it is integrated with and supported by all other tools available in the arena of public decision-making including the most complex tool of all, political judgement.

3.4.2 Zero-Base Budgeting (ZBB)

As indicated earlier, in a traditional or incremental budgeting context, government departments and agencies consider current expenditure levels as an established base and analyse in detail only proposed increases or decreases. Zero-base budgeting, on the other hand, requires each head of department or agency to justify his/her entire budget request in detail and puts the burden of proof on him/her to justify why he/she should spend any money. This procedure requires that all activities and operations be identified in decision packages which will be evaluated and ranked in order of importance by systematic analysis (Phyrr, 1973).

Zero-base budgeting is precisely what it says, i.e. the preparation of operating budgets from a zero-base, even though the organisation might be operating more or less as in previous years, the budgetary process assumes it is starting anew. Resources are not necessarily allocated in accordance with previous patterns and consequently each existing item of

expenditure has to be annually rejustified. Thus, by focusing on this need to rejustify existing levels of expenditure the apparent weakness of traditional budgeting is avoided, i.e. the perpetuation of obsolete expenditure. Zero-base budgeting has, therefore, an obvious appeal to a society which continually demands assurances of the most effective allocation of scarce public resources.

The origin of ZBB has been traced back to at least 1924 and probably goes back much further (Gordon and Heivilin, 1978). It was first used in government organisations by the US Department of Agriculture in Spring 1962 and its concept was aiming to:

"..... examine all programs at the same time and from the ground up to discuss programs continuing through inertia or design that did not warrant being continued at all or at their present level of expenditure As a result, relative priorities of total amounts for all programs could be considered not merely amounts of increase and decrease for some programs" (Wildavsky and Hammann, 1966).

Unfortunately the department's attempt to develop an effective ZBB was not successful. Some people in the department at that time "complained, that they had done a lot of extra work, yet nothing had been changed as a result of their endeavours" (Wildavsky and Hammann, 1966).

Nevertheless, Phyrre (1970) argues that the attempt by the Department of Agriculture to implement the concept of ZBB in 1962 was not successful because it did not resemble the methodology used successfully in both industry and government as described in his book."

However, the process was branded a failure and was not used again until the late 1960s when Texas Instruments developed and effectively utilised a modern version of ZBB by Peter Phyrre who was Control Administrator in the company. He wrote an article in 1970 describing the process of the system as applied at Texas Instruments (Phyrre, 1970). This successful attempt attracted Mr J. Carter, then Governor of Georgia, who was very keen to improve the budgetary process for Georgia. Thus, ZBB was first used for the entire executive budget for the state of Georgia in the year 1972/73.

According to Suver and Brown (1977), the department heads at the state of Georgia listed the following three major advantages of ZBB:

- "1. the establishment of a financial planning phase prior to budget preparation
2. an improvement in the quality of management information
3. an increase in the budget involvement of personnel at the activity level."

Generally speaking there are some advantages of zero-base budgeting; however, it has some disadvantages. Among those points commonly noted in favour of ZBB are: (1) it is a rational, optimising approach to budgeting, (2) it forces objectives to be clearly stated, (3) it forces a clear statement on programme priorities, (4) it encourages decentralisation, (5) it opens up channels of communication between those involved and (6) it allows existing programmes to be terminated. The points often noted against ZBB include: (1) the results are no different than if incremental budgeting were used, (2) the paperwork generated is excessive, (3) the workload imposed upon managers is greatly increased, (4) the benefits from many programmes can not be quantified in the sense that is required for the ranking process, (5) The process really has a centralising effect, and (6) it attempts to turn what is naturally a political process into a managerial process (Wildavsky and Hammann, 1966; Phyr, 1970; Gordon and Heivilin, 1978).

When Mr Carter became the President of the United States, it was widely anticipated that he would try to introduce ZBB to the Federal Government as a means of improving the state of federal budgeting. Upon taking office in January 1977, President Carter wasted little time in implementing ZBB throughout the Federal Government. White House Bulletin No. 77-9, issued on February 14th, 1977, requested the various departments and agencies to prepare the fiscal year 1979 budget under a ZBB system. As a result, the 1979 budget that Carter transmitted to the Congress in January 1978 was the first federal budget prepared using ZBB principles and procedures (Gordon and Heivilin, 1978).

In the assessing of ZBB in the federal government, the White House in their May 2nd, 1978 press release, provided a balanced view on the experience of the first year with ZBB. According to Gordon and Heivilin (1978) the benefits attributed to ZBB were:

1. elimination of a few programmes;
2. identification of programme trade-offs;
3. greater involvement by top agency officials in the budget process;
4. improved communications among top, middle, and lower levels of management and,
5. greater clarity of programme objectives;

and the problems noted included:

1. increased paperwork;
2. need to modify decision unit structures;
3. problems in defining programme objectives;
4. difficulty in ranking programmes; and
5. determining minimum levels of funding, which presented problems for most agencies.

In relation to PPBS it has been said that the primary difference between PPBS and ZBB is the time horizon. PPBS is a system of long-term strategic planning. In contrast, ZBB is a budgeting technique that is basically short-term and tactical in nature. It does not comprise a complete budgetary system, but rather it is a tool to assist in budget formulation. This technique is completely independent

from the formation of the budgetary plan; but once a plan is adopted it can be employed in the implementation phase of the budget cycle (Suver and Brown, 1977).

Another important difference between PPBS and ZBB lies in the distinction between a programme and a decision package. The ZBB Manual of State of Georgia (1971) defines a decision package as:

"an identification of a discrete function or operation in a definitive manner for management evaluation and comparison to other functions, including consequences of not performing that function, alternative courses of action, and costs and benefits."

Decision packages differ from programmes because of the time involved. A programme includes the projected financial data applicable throughout the programme's life while the financial data included in a decision package refers only to the fiscal year under consideration.

Phyrr (1973) also pointed out that "PPBS ensures the effectiveness of the allocated funds in achieving specific objectives, it does not show the procedures of performance, i.e. to transform these objectives into an efficient operating plan and budget and allows managers to evaluate the effect of various funding levels on programs and program elements." ZBB is proposed to fill this

gap by providing the necessary information about all functions and operations. In other words, ZBB and PPBS ensure the effective as well as efficient use of resources.

According to Gordon and Heivilin (1978), the modern version of ZBB has five basic steps as follows:

- "1. determining decision unit;
2. developing decision packages for each decision unit;
3. ranking decision packages;
4. consolidating the rankings at higher organisational levels; and
5. allocating resources."

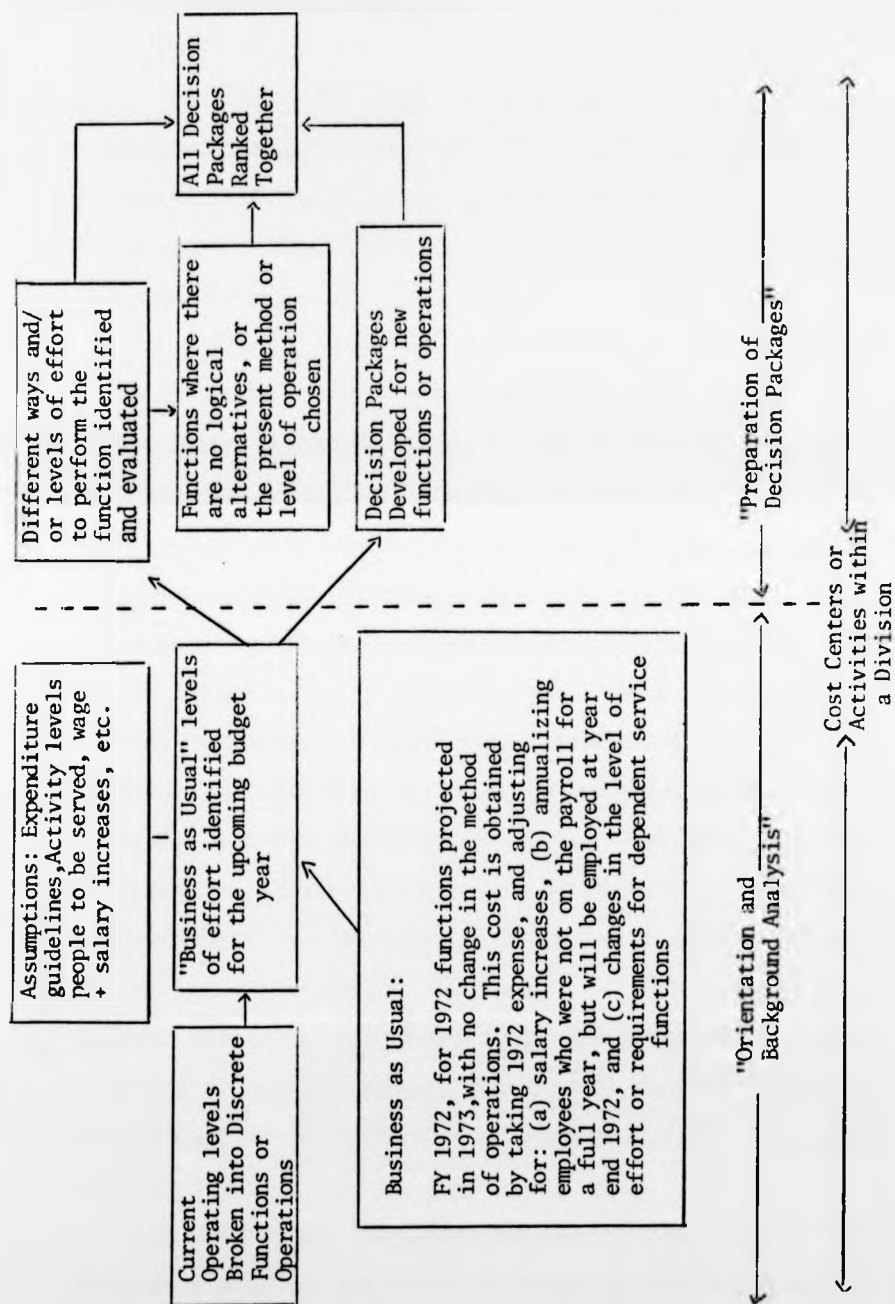
Decision Units represent separate organisational activities for which separate budgets are prepared. From a practical standpoint, decision units are often chosen based on cost centres which are tied to the organisation's objectives. For each decision unit a set of decision packages is prepared to describe the activity in hand as well as its objectives. Separate packages are prepared for incremental levels of spending for each activity. Decision packages also contain descriptions of the costs and benefits associated with performing the activity. Once the preparation of all the decision packages for an organisational unit is completed, they are ranked in descending order of importance and are sent to the next organisational manager, who continues the ZBB process (Gordon and Heivilin, 1978).

The manager of the next level is required to consolidate the rankings of the various sub-units reporting to him/her. It is top management's task to establish the final priority rankings for the entire organisation. This stage is followed by the allocation of the organisation's resources. Of course, higher ranked projects would be funded before lower ones up to the point that all resources are fully allocated (Gordon and Heivilin, 1978). To be an effective process, ZBB requires top management support, a careful and well-prepared design of the system, and good management. Figure 3.4 below illustrates the procedures for formulating decision packages in zero-base budgeting.

To conclude this section, it is safe to say that ZBB could make a positive contribution toward the better use of resources. Perhaps, the most difficult problem in implementing this approach is the lack of time to go through the enormous amount of material and information generated throughout the process, and the cost of analysis and paperwork. It is well known that time in government is always limited. This difficulty, however, can be reduced by adopting a limited approach to ZBB. Unlike some other budgetary systems, e.g. PB and PPBS, ZBB could be applied to some selective areas and services and not necessarily to the whole organisation, or, to each department in turn over, say, a five-year cycle. And because time and resources are always limited, this has been considered as a primary advantage of ZBB which allows any organisation interested in this concept to adopt the scope that suits the time and resources available.

Figure 3.4

Procedures for Formulating Decision Packages in a Zero-Base Budgeting Process



Source: Phyrre, P., Zero-Base Budgeting, New York, John Wiley & Sons, 1973, p. 200.

3.5 Summary and Conclusion

This chapter has shown that the inadequacy of the traditional budgetary system has led to various developments to improve it in public sector organisations. Historically, there are two major reforms in government budgeting, performance budgeting and programme budgeting.

The principal objective of PPBS is to provide better information to help policy makers to take the right decisions at the right time and thus to accomplish the right results. This objective has been, to a large extent, achieved in the US Department of Defense following the successful introduction of PPBS in 1961. This success encouraged President Johnson to decide in 1965 to install the new system in all federal departments. The result, however, was generally disappointing. There are a number of factors which have contributed to the successful complementations of the PPB system in the US Department of Defense. One major factor was the support and encouragement of the boss at the top. Such an important factor was obviously one of the reasons for the disappointing results in the other federal departments. It should be made explicit, once again, that theoretically speaking there is nothing wrong with the approach itself; rather it is the implementation procedure and the organisational structure which did the most harm.

In summary, the limitations and shortcomings of the traditional approach of budgeting are widely recognised because it emphasises the financial control (accountability) function, it has a limited value as a source of information to the decision-makers. As a response to these limitations, attempts have been made to overcome

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In summary, the limitations and shortcomings of the traditional approach of budgeting are widely recognised because it emphasises the financial control (accountability) function, it has a limited value as a source of information to the decision-makers. As a response to these limitations, attempts have been made to overcome

them and to make the budget an effective planning and control device for better resource allocation and utilisation. The development of the PPBS in 1960s has been considered as a major reform to improve the budget process.

As a consequence of the difficulties facing PPBS, other new developments were started in the 1970s. These included management by objectives and zero-base budgeting. Since 1970, with the decline of the PPB system, management by objectives has emerged as the most recent and viable new management approach. The rationale for adopting MBO in government is similar to that of PPB: each department or agency must formulate goals and objectives, develop action plans for their accomplishment, and provide quantitative measures or evaluation of goal realisation (Jun , 1976).

In the search for new technique to improve the budgeting process in government activities, ZBB is one of the budgetary techniques being considered by public sector administrators. ZBB is a technique whereby the total cost of every item included in a proposed budget must be justified and approved.

This chapter has been devoted to discussing these newer developments by examining the recent literature. But because the British approach toward the improvement of government budgeting is different from the American, parts two and three of this research are devoted to discuss the British experience in both central and local government with special reference to English local authorities.

PART TWO

THE STATE OF BUDGETARY TECHNIQUES AND RELATED MANAGEMENT SYSTEMS
IN THE BRITISH CENTRAL GOVERNMENT AND ENGLISH LOCAL GOVERNMENT.

CHAPTER 4

BUDGETARY TECHNIQUES AND FINANCIAL CONTROL PROCEDURES IN CENTRAL GOVERNMENT

4.1 Introduction

The purpose of this chapter is to investigate and examine the major financial developments in British central government and its contribution to the improvement of planning, controlling and monitoring public expenditure and the decision-making process. This would be, as far as the researcher is concerned, of great help to the Government of Egypt to have such an experience in hand and to rectify the gap in the Egyptian literature as well.

The British economy, like almost any other modern economy, can be classified as a "mixed economy". The government is becoming more and more powerful and its role in the economic and social life of the country has changed dramatically over time. This situation is evidenced by the enormous increase in public expenditure on the one hand, and by the fact that many major industrial establishments are now government owned, on the other hand. To accomplish its social and economic goals, the government seeks to make the best use of its available resources by effective planning and control of public spending. In this respect, it attempts to increase its knowledge in order to manage the economy more efficiently.

In the UK, after World War Two, the budget had become a basic and effective device used by the government to overcome some of the country's economic problems; such as the balance of payments; unemployment; inflation and so on. In the mid-1950s, however, there was a growing dissatisfaction with the existing system of public expenditure planning and control. Such dissatisfaction was reflected by the appointment of the Plowden Committee in 1958 to report on the planning and control of public expenditure. This appointment was the result of a recommendation made by the Select Committee on Estimates in the session 1957-58. The Plowden Report was published in 1961, containing the Committee's proposals to improve the planning and control of public expenditure. Perhaps it is safe to say that the substantial growth in public expenditure was a major factor to cause this dissatisfaction with the system of planning and control of public expenditure.

The central government, as the manager of the economy, has to formulate its policy and strategy in the light of national objectives. Decisions must be made to allocate national resources between various activities, e.g. defence, education and housing, which contribute to accomplishment of the overall national objectives. The aim is to maximise the satisfaction the public receive from the use of national resources. Another level of decision-making in government is the allocative decision-making process in individual departments, which involves the allocation of the department's total budget among the various programmes, e.g. the allocation of the education budget between higher education, further education, primary education, research and so on.

All the efforts and attempts which have been made in the last two or three decades aimed to improve those levels of decision-making by providing more and better information. Indeed, PESC and the cash limits system ⁽¹⁾, for instance, have been developed to make the government's plans more effective by analysing in-depth, all promising options to achieve specific objectives. Before the introduction of such developments, governments were concerned mostly with efficiency in terms of the costs of carrying out their activities. Efficiency is, no doubt, an essential objective to attain; however, to perform the wrong task efficiently might be as harmful as performing the right task inefficiently. Thus, the first step is to determine the proper direction of activities, by long-term planning and analysis of alternatives, and then the next step is to carry out these activities efficiently.

Generally speaking, two major developments in British Central Government occurred in the 'sixties. The first was the establishment of a new system of public expenditure survey, in 1961 immediately after the publication of the Plowden Report, in which a regular annual survey, known as PESC (Public Expenditure Survey Committee), was the major proposal. Since 1961 an annual survey of public expenditure covering all areas of the public sector, has been an accepted practice of the government. The other development was the introduction of various sophisticated analytical techniques in some departments to provide more and better information to be used in the resource allocation decisions.

(1) Discussed later in this chapter.

Before these major developments, individual developments were introduced (Bridgeman, 1973). According to Bridgeman (1973) the first took place in 1955 when a major roads programme was made to cover several years ahead. Also in 1957, a five-year economic assessment was developed. The Defence Ministry in 1958 had adopted a five-year costing system to plan its expenditure (Bridgeman, 1973). Nevertheless, as Bridgeman says, "the integration of the individual developments did not happen until after the report of the Plowden Committee".

To fulfil the aims of this chapter, it has been divided into five main sections as follows:

1. The reorganisations of central government as proposed by the White Paper of October 1970.
2. Public expenditure and its trend and growth, the Plowden Report, and the introduction of the PESC system.
3. The establishment of the Central Policy Review Staff (CPRS).
4. Public Expenditure Planning and Control in Cash.
5. Summary and Conclusion.

4.2 The Reorganisation of Central Government

The White Paper of October 1970 on the reorganisation of central government indicated the government's intention to improve and increase the efficiency of the central government through a review of its functions and organisation (White Paper 1970). According to that White Paper, the aims of such a review were:

1. To improve the quality of policy formulation and decision-making in government by presenting Ministries collectively in Cabinet and individually within their departments, with well-defined options, costed where possible, and relating the choice between options to the contribution they can make to meeting national needs. This is not confined to new policies and new decisions, but rather implies also the continuing examination, on a systematic and critical basis, of the existing activities of government.
2. To improve the framework within which public policy is formulated by matching the field of responsibilities of government departments to coherent fields of policy and administration.
3. To ensure that the government machine responds and adapts itself to new policies and programmes

and these emerge within the broad framework of the main departmental field of responsibility.

In order to fulfil these aims, the government realised that some important changes in the government machinery should take place. The main changes are discussed below.

First, more attention should be given to the analytical approach toward government activities.

"The first basis of improved formulation and decision-taking is rigorous analysis of existing and suggested government policies, actions and expenditure. This analysis must test whether such policies or activities accord with the government's strategic aims and, indeed, whether they are suitable for government at all".

(White Paper, 1970).

Secondly, the government emphasised the importance of the allocation of responsibilities between departments according to a functional principle, that is to say, government departments should be organised by reference to the task to be done or the objective to be attained. Moreover, the need for unification of functions, i.e. growing of functions together, within each department, was stressed so that the comprehensive approach in government organisation could be achieved. The above-mentioned White Paper suggested in some detail the various changes that needed to be introduced in the organisation of government

departments in order to attain this important aim.

Thirdly, the problem of policy formulation and decision-making was presented as a major difficulty facing the government. An improved and comprehensive information system to help Ministers in making decisions was the proposed solution to the problem. The White Paper, (1970) stated that "the necessary basis for good government is a radical improvement in the information system available to Ministers." Finally the White Paper (1970) pointed out that the proposed changes of the government organisations would need a period of stability in order to achieve the objectives of such changes.

4.3 Public Expenditure and the PESC System

Perhaps the level of public expenditure reflects the range of various activities carried out by governments and their intervention in the national economy. As a matter of fact the level has been growing rapidly in all countries, at least until recently, to meet the increasing demand for services by the public. This situation has created an increasing government intervention in more and more activities (see Chapter Two). To take the UK as an example, the tremendous increase in public expenditure started during the post-war period when the government introduced the National Health Service, took over a number of major and large industries known as nationalised industries and so on. All these actions were mainly attributed to the inadequacy of the private sector to provide the necessary level of services to

the public (Gould and Roweth, 1980).

A simple comparison between total public expenditure ⁽¹⁾ as a percentage of GNP over a period of time will show the tremendous growth of public expenditure. In 1900, public expenditure was £281m or 14 per cent of GNP, the corresponding figures for 1955 were £6143m or 37 per cent of GNP, while in 1976 public expenditure reached £57,686m or 52 per cent of GNP (Hockley, 1979). According to Byrne (1981) half of the nation's annual income flows through the hands of the British government, and some 30 per cent of the labour force are employed in the state sector.

Obviously, such a large amount of money and resources must be wisely directed and allocated to achieve the maximum benefit to the public. Any ad hoc decisions on allocation of such huge amounts of resources could have regrettable consequences. Therefore, an adequate and effective system to plan, manage and control public expenditure is necessary.

In its 1958 Report on Treasury Control of public expenditure, the Select Committee emphasised that the existing system of management and control was inadequate mainly because on the one hand the tendency is for expenditure decisions to be taken piecemeal, and on the other hand, public spending had grown enormously. It was realised that such an increase required new procedures and rules to cope with it, since the existing system

(1) Public expenditure here includes both the expenditure of central government and of local government, as well as the net capital finance of nationalised industries as in the cash limits system.

of public expenditure at that time was initially developed in the nineteenth century (the Plowden Report, 1961). Thus the Select Committee on Public Expenditure recommended that an independent Committee should be appointed to investigate and report on the matter. As a result, the Plowden Committee was appointed in the summer of 1959. Its job was to review, discuss, and point out the weaknesses and deficiencies of the system, and to recommend any proposals that would bring the growth of public expenditure under control and contain it within such limits as the government may think desirable (Plowden Report, 1961).

As has been mentioned earlier, the report was published in July 1961. The fact that public expenditure had gained a different and important role in the economic life of the nation since the 1940s, was emphasised by the report. Specifically, three elements which had caused this change were mentioned. In the first place, public expenditure had grown rapidly as a result of local authorities' expenditure, and the creation of nationalised industries.

Secondly, the government nowadays is involved in a number of sophisticated projects, both technological and commercial, which need to be given careful consideration and analysis. Invariably these projects require a different treatment than that given to the traditional services provided by the government, and the length of the projects often extend for several years.

Finally, the theory of public finance has brought an increasing emphasis on the role of public expenditure and taxation as effective devices to influence the economy. All this implies a need for better decisions to replace the existing discrete ones on public spending. This was the main conclusion of the Plowden Report (Plowden Report, 1961).

In order to carry out its task, the Committee analysed public expenditure in different departments to examine the actual management control of expenditure in order to determine the weaknesses and shortcomings. Also, some comparisons between departments in handling similar jobs were made to see the degree of efficiency. The report first called attention to the inadequacy of traditional system of public expenditure, i.e. piecemeal decisions, by which the consideration of departmental expenditure was undertaken separately. They argued that without looking at the public expenditure as a whole, decisions would be ineffective. The crucial contribution of the Plowden Report was its recommendation that regular survey of public expenditure as a whole should be conducted on a long-term basis with regard to the prospective economic resources and that these surveys should be considered as a guide to policy makers, and not a substitute to their judgement, as the report has stressed.

In addition to this main recommendation, there were three more proposals made in the report which are worth mentioning: (a) the long-term economy and efficiency in the public sector requires the greatest practicable stability of decisions on public expenditure; (b) Improvements are required in analytical

problem-solving techniques in order to increase the efficiency of the public services and to contribute to a better understanding by Parliament and the public; (c) More effective machinery for collective decision-making is required. The Committee believed that the results of the proposed reconstruction of the traditional system would take a number of years before they could be seen to be working.

These recommendations were accepted by the government, and the Treasury, in consultation with the spending departments, set up machinery to implement them. Central to this machinery was the Public Expenditure Survey Committee, a group of senior officers from all major departments, responsible for making an annual survey of public expenditure plans as the basis for ministerial decisions on its total and composition. The essential task of the committee was to summarise and cost as accurately as possible all public expenditure programmes on the basis of "existing policies". The costings were to cover the current year and a number of years ahead, which has varied from two to five. Departments were allowed later in the development of the system to include "additional bids" for further expenditure they wished to make. During the 1970s the system changed from a costing of existing policies to a projection forward of existing levels of approved expenditure on them.

The first of the White Papers on public expenditure (PESC) was published in 1963. Since that time, the PESC survey has been an accepted practice for every government coming to office.

As mentioned above improvements and developments in the methodology and presentation of course have been taking place in the survey (Henley et al., 1983).

The government in 1966 published a White Paper (Cmd 2915, April 1969) on the planning and control of public expenditure, to strengthen the PESC system and to re-shape the public expenditure system, which involved:

1. A decision to limit the total growth of public sector expenditure to an average of 4.25% a year at constant prices from 1964-65 to 1969-70.
2. Within this total, a long-term allocation of resources to each of the main public services to provide the quantitative framework for their development.
3. A strict review of individual programmes, in particular, of defence.
4. The preparation of Estimates within specified limits so as to ensure their consistency with (1) and (2).
5. A review of the investment of the nationalised industries to fit in with the national plan.

6. More effective implementation of the programme and an improvement of financial control, to get better value for money.

In fact the important step was achieved through the development of the PESC system to look at public expenditure as a whole, by estimating all future implications of current decisions and by considering as many alternatives as possible in order to choose the most promising option in achieving national objectives (White Paper on Public Expenditure, 1969).

As has been mentioned earlier a regular survey of public sector expenditure has been in existence since 1963 following the recommendations of the Plowden Report. The purpose of this survey was pointed out by the Exchequer in 1961 when it was noted that "the object of carrying out the study (PESC) is to see how we can best keep public expenditure in future years in proper relation to the growth of our national product" (White Paper, 1963). The White Paper of 1975, stated more clearly the main purpose of the annual survey of public expenditure as follows:

- "(a) to strike the right balance between the demand placed on resources by public expenditure and by exports, investment and private consumption;
- (b) to bring the public expenditure programmes into line with the government's general priorities and objectives."

As has been mentioned before, the first White Paper on public expenditure was published in 1963. In 1969, the government proposed that a regular White Paper on public expenditure should be published at the end of each calendar year. The first in this series was published in December 1969. Since that time, there has been a White Paper on public expenditure at the end of each year. Sometimes its issue was delayed by the difficulty of reaching agreed decisions, particularly when large cuts in the programmes as costed in the survey were judged to be necessary. Recently it has not been published until much nearer to the start of the next financial year.

The public expenditure White Paper has come to provide a great deal of information about the government's forward spending plans and their relationship to other objectives of economic and financial policy. Figures for all the spending programmes are broken down to show the individual services; they are analysed by spending authority-control or local government, certain public corporations, and by economic category, i.e. capital investment, current spending on goods and services, transfer payments and so on. The policies and purposes which all the principal services are intended to promote are described. The changes in expenditure plans and outturns compared with the previous White Paper are explained. The information about the nationalised industries' capital investment and financing is included as well. It is safe to say here, that the plans which the White Paper contains are the government's plans or estimates of what is likely to be spent, and it does not itself carry any Parliamentary authorisation.

By comparison to other major developed nations, the UK may be considered more advanced in this respect. A memorandum published by the Treasury in 1976 on public expenditure planning practised in five Western countries, the USA, France, West Germany, the Netherlands, and Denmark revealed that none of these countries publish expenditure plans which are at all similar in time scale, or in details to those in our Public Expenditure White Papers" (Treasury, 1976). Goldman (1970) had also claimed that the White Paper on public expenditure "is comprehensive, consistent, sophisticated, dynamic, operational and strategic. Collectively, these qualities make up a unique document ahead of anything to be found anywhere in the world." The system has also been praised in another source:

"by international standards the PESC survey is already a sophisticated method of examining public expenditure at least in some respects; it looks forward for a few years, deals generally with all public expenditure rather than central government expenditure and groups expenditure into functional blocks" (Education Planning Paper, 1970).

Such claims would be clarified by examining the main features of the system, its procedures and its contribution to the improvement of the quality of government decisions. The main features of the PESC system are summarised as follows (Green Paper on Public Expenditure 1969; Henley et al., 1983).

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1. The surveys are comprehensive, that is to say they cover the whole public sector, the expenditure of central government and its closely related agencies, the expenditure both capital and current of local authorities, and, for some years, the capital investment of the nationalised industries (the total external financing needs of the industries are now included in the survey's figures in place of their total investment programmes). The objective is to consider all public expenditure elements and at the same time to identify priorities to make the best allocation of resources among competing claims.

2. The annual survey covers the current year and a number of years ahead, which has varied from two to five. This is to enable the decision-maker to see all possible future commitments and the implications of current decisions on long-term programmes. Such programmes require not only the initial cost but also the regular annual costs. The failure to make plans to secure the necessary cash for future payments would result either in the cancellation of some projects with the loss of the initial costs, or in some of these projects being badly affected. In addition, the estimates of future costs of a project are essential in order to calculate the proper cost of a project (initial costs and subsequent payments) to be judged against its benefits. Thus, the extension of the time scale beyond one year in the planning of public spending is inevitable in order to make effective decisions.

3. The figures in the survey are classified by functional programmes such as defence, education and housing, as well as by

economic strategy, capital and current expenditure. Also, the analysis of public expenditure according to the spending authority, i.e. central government, local authorities and public corporations, is presented in the survey. The functional classification was adopted in the survey because of its clear advantage in presenting all expenditure related to one specific function, say education, in one main programme regardless of the spending authority. Thus, all expenditure on education is organised under the Education Programme. Now the survey covers 19 main programmes, with several sub-programmes and programme elements.

4. The annual survey is fundamentally based on a regular and broad assessment of the economy over the short and medium-term, so that the overall objectives and policies of the government can be identified. In addition, the prospects of national resources are considered in relation to expenditure.

The Government's general priorities should be identified in order to maximise the benefit that the public gain from the use of national resources. Such priorities are usually mentioned broadly in the White Paper. For instance, the 1974 White Paper had stated social security, housing subsidies, and contribution to the investment of nationalised industries to increase efficiency and output, as the government's top priorities (White Paper on Public Expenditure, 1974). These priorities would not be adequately identified unless the general policy and goals are defined, its objectives and goals are determined and the prospects for the available resources are assessed, and unless accurate

and detailed information on costs and benefits of the various competing claims is available. The next step is to decide the appropriate growth rate of public expenditure as a whole and for individual programmes, in the light of national priorities and resources available.

5. The figures in the survey were at the constant prices, that is the survey prices, to eliminate any effect that price changes might have. But the constant prices were updated between one survey and the next, and even between programmes there was some variation in the base date used. It was therefore difficult to compare expenditure plans and outturns for any particular year in successive White Papers. It seems most probable that the application of the cash limit system in 1976/77 was designed to remedy such problems (Henley et al., 1983). From 1982/83, a major change was made by the government in the basis of PESC itself and its relation to cash limits. (1)

6. From 1972 and onwards, the annual White Paper includes, as well, the actual expenditure for the five previous years in the survey prices, for the purpose of comparison without the price effect.

Although the PESC is considered as a powerful instrument for planning and controlling public expenditure by providing more and better information to decision-makers, there have been some criticisms on the way that the Treasury plans and controls

(1) Discussed later in this chapter.

public spending. Some of these criticisms came from the Expenditure Committee in its report on the Financing of Public Expenditure published in December 1975. In particular, the Committee expressed its concern on the Treasury's failure to control public expenditure in relation to the relative prices effect. It also had stated in 1974-75 "actual expenditures were greater than estimated which clearly reflects the plan's inaccuracy". The Committee went further in its report to express its desire to see what is called a "PESC plus system" for positive planning.

Also the Public Accounts Committee in its report of 1975 had criticised the way that government departments managed and controlled their expenditure. In the words of the Committee's chairman, "government spending was hopelessly out of control (Wright, 1977).

According to Wright (1977) there were three major weaknesses in the PESC system as a financial controlling system. The first was the high rate of inflation in Britain. Thus, in the 1970s under-estimates of costs and the movement of prices and wages meant that a given volume of services had to be financed at a greater monetary cost than was anticipated" (Wright, 1977). Therefore, there was a lack of control over the monetary costs.

A second major weakness of the PESC was its lack of a comprehensive monitoring and information system, despite the attempts by the Treasury to make some progress in this respect by introducing PAR programme and "empirical research" into particular programmes in central departments (Wright, 1977). The third weakness

was the difficulty of controlling local government spendings, which accounts for a third of total public expenditure, mainly because that proportion has been growing faster than that of any other spending authority in recent years (Wright, 1977).

Realising such weaknesses in the financial controlling system, the Treasury has acted to overcome these major weaknesses. First a cash limits system on expenditure was introduced in April 1976. It aimed to control the monetary costs which resulted in discrepancies between actual and planned expenditure. This policy of cash limits means where there is an increase of prices or labour costs above that forecasted and allowed for in the cash limit the Treasury will not automatically meet the bill by presenting Supplementary Estimates to Parliament (Wright, 1977).

Secondly, in 1974/75 a new central Financial Information System was developed by the Treasury to improve the quality of information and to obtain the necessary financial information from the departments more frequently than before (on a monthly basis instead of every quarter) so as to take corrective actions at the right time. It was clearly essential that for the cash limit to be monitored and enforced, an effective financial reporting system of this kind should be available.

The annual cycle of PESC starts at the beginning of the year in the spending departments. Every department is asked to estimate the cost of its main programmes and sub-programmes for the survey's

coming years, and to distinguish between capital and current expenditure. These estimates are prepared in the light of the government's general policies and the department's own objectives and priorities. To carry out this job efficiently, an adequate and up-to-date information system in the department is essential in order to produce relevant cost data for each programme and its contribution to the department's objectives, and to provide other non-financial information to be used in the forecasting process. Also, it is vitally important to have qualified staff to prepare the estimates and to support them by relevant statistical data to persuade the Treasury on the one hand, and to help the PES Committee by supplying the necessary information and analytical studies, on the other hand.

Thus, the improvement of information systems of departments and the availability of qualified personnel are a major factor in producing an effective PES system. Every department has a representative on the PES to participate in the formulating of the Committee's report, and to present his department's views to the Committee.

In the second stage of the PES procedures comes the role of the Treasury, which plays a key role throughout the process, e.g. a Treasury official chairs PES. There, all estimates from all areas of the public sector are examined, reviewed and analysed as a whole in the light of government priorities and objectives, and the prospects for resources. Naturally, throughout this process, the Treasury maintains a continuous discussion with departments on their expenditure programmes. There are several units

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in the Treasury, which carry out various activities to produce the necessary data and information to be used as a guideline. The General Expenditure Division and the Management Accounting Unit are examples, and their activities include the ways of improving information systems in departments to help in making better decisions on programmes, and the application of analytical techniques such as cost effectiveness analysis and investment evaluation.

All data and related information are put together before the PESC in the Treasury to be analysed to produce the PESC annual report. The report is then considered by the Cabinet to make any changes in the light of the government's economic and social policies and according to priorities among competing claims. After the examination of the report and the making, if any, of necessary changes, the Cabinet gives it approval and it then becomes the official policy on public expenditure for the forward years.

The last stage of the PESC cycle takes place at the end of the year when the annual White Paper on public expenditure is drawn up from the PESC Report to be debated in the House of Commons, and published. The Treasury and Civil Service Committee examines and analyses the contents of the paper in more depth and detail to make its regular comments and recommendations to the government to be considered in the next survey.

Having discussed the main features of the PESC system and its procedures, there are four related points worth mentioning. The first one concerns the role of Parliament. It has an important

role to play in assisting the government to formulate the nation's policies through its various Select Committees (Henley et al., 1983). The striking example is the role of the Select Committee on Estimates in 1958 in developing the annual survey of public expenditure. Indeed, it was this Committee which expressed the dissatisfaction with the existing system of public expenditure and recommended an independent Committee to investigate the matter. Parliament, through its Select Committee on Expenditure ⁽¹⁾, continued to play a major part in improving the PESC system. Every year, after the debate on the White Paper by the House, the Treasury and Civil Service Committee examines the paper in detail and makes its recommendations to be considered by the government in the next year's survey. For instance, the Treasury and Civil Service Committee in 1971-72 realised that the annual survey lacks the necessary information on expenditure's resulting output and recommended in its eighth report that:

"..... an information system based on outputs as well as inputs covering all items of public expenditure should be established; and that a start should be made this year by publishing in the public expenditure survey White Papers, in tabular form, any available information showing what expenditure is intended to purchase and the results it is expected to achieve " (White Paper, 1973).

(1) Now Treasury and Civil Service Committee.

The continuous role of Parliament in improving the PESC was emphasised by Goldman (1973) when he observed that Parliament and the relevant Committees and sub-committees will continue to act as an effective spur to the executive to improve performance and develop still further the system of public expenditure management and control. In the same direction the Treasury and Civil Service Committee in its fourth Report (1982) stated that:

"The Public Expenditure White Paper (Cmd 8499) does not clearly and consistently set out past and future price factors. In our attempted analysis of the cash figures we have had to extract inflation forecasts from the Financial Statement and Budget Report and from the notes to the White Paper. This is an unsatisfactory situation."

The second point relates to the attitude of both major parties toward the PESC system. It is important to emphasise here the fact that every government in power has shown its belief in the value of carrying out a regular survey of public expenditure since 1963, regardless of the party of government in office. What are changing, of course, are the general economic and social policies on which the survey is based, which differ from one government to another. But every government in power has emphasised the need for better decisions on the use of national resources through better systems of planning and control of public expenditure, that is to say, the ability to control the size and growth of public spending in order to secure the right balance

of economic and social priorities.

The third point is about the improving of the PESC system since it was introduced. A simple comparison between the first White Paper on public expenditure (December 1963) and a later issue (March, 1982) will clearly show the tremendous improvement of the annual survey over that period. More years are covered to provide the necessary material for comparison between actual performance and future plans, more non-financial information is presented, more statistical data is included, and the estimation of the increase in national resources which will be available within the forward years and the alternative uses of such increases, are provided. And, naturally, the government's general objectives (economic as well as social), priorities among competing claims, and information on medium-term assessment of the economy are disclosed. In short, the annual White Paper on public expenditure has improved over time in terms of presentation and analysis of various programmes. Nevertheless, much remains to be done on the problem of output measurement.

Finally, the fourth point is on the significance of a well-developed system of information in government departments in order to improve the quality of decisions. Undoubtedly, an accurate and up-to-date information system is a basic need of any modern government. The task of collecting, summarising, analysing and presenting data and information has been the central concern of many governments and greater efforts will be needed in this direction.

Like a private concern, a public organisation has three distinguishing processes: these are planning, management and control. Each function or process of these three entail detailed and accurate information. In the planning process, a decision-maker needs the right information on the effectiveness of plans and decisions. In the management process, the managers want detailed information on the efficiency of the operating units. In the control process, the legislators require information to show if the resources were spent as allocated (Garrett, 1972). According to Garrett (1972) a public organisation needs information for three major purposes:

1. for submission to the legislature for appropriation and for statutory audit,
2. for making policy and programme decisions for evaluating the impact of policies and programmes upon the community,
3. for budgetary control, setting staffing levels, measuring management performance, and identifying managerial accountability.

The Report on Output Budgeting (1970) specifies the various types of information needed for developing a system of programme budgeting. It states that:

For the purpose of output budgeting it is necessary:

- " (i) to know the future implications for the system, in terms of resources, of exogenous factors such as population changes;
- (ii) to know the existing use of resources by programmes;
- (iii) to cost the policy options available;
- (iv) to assess outputs resulting both from existing activities and from possible future activities."

Obviously, information requirements differ from one case to another. Thus, what is required, for instance, for taking a decision on developing a new weapon is different from what is required for a decision to be made on a road project. In some cases, the problem is too much data and information, rather than a lack of information. The crucial point is what is relevant to the point at issue.

In short, information is an essential aid to the decision-makers to formulate policies, to identify priorities and objectives, and to choose the most promising alternatives to attain those objectives. Therefore, much attention has been given to produce more and better information. One must not forget the crucial role of an effective accounting system in making a

successful information system. As has been said earlier in this study, governments have realised the role of accounting in this respect and a lot of effort has been made to improve the traditional system of government accounting and in particular the increasing use of cost accounting techniques.

Having examined these four points related to public expenditure decisions, we now turn to discuss the major accomplishments of the PESC system in government decision-making, and its limitations. Throughout its existence, a PESC has been a powerful instrument for managing and controlling public expenditure. Its main accomplishments can be summarised as follows:

1. Better government control over the growth and trend of public expenditure, and relating this to national resources and the nation's economic growth.

2. The government has become able to identify its overall economic and social policies, the national objectives and priorities among all competing claims, central government, local authorities, and nationalised industries, on a medium-term basis.

3. The improvement of departments' information systems and the development of new resource allocation techniques in order to prepare, as accurately and effectively as possible, the annual expenditure programmes for the coming years (in the survey) in accordance with the PESC requirements.

4. All expenditure related to one function, say education, is presented under one programme regardless of the spending authority. The advantages of such classification have been discussed earlier in chapter two.

5. Much attention is given to the relation between input and output, and attempts are being made to develop more measures of output and to provide more non-financial information.

Naturally, there are a number of difficulties in carrying out the annual survey. Perhaps the most obvious is the problem of uncertainty about future economic and social developments concerning programmes which are beyond the control of human judgement. Another difficulty was attributed to the use of a constant price base for all figures in the survey. As has been mentioned before each survey was conducted at constant prices, but the constant prices were updated between one survey and the next, and even between programmes, this caused some variations. It was therefore difficult to compare expenditure plans and outturns for any particular year. In this direction Goldman (1973) stated:

"The main difficulty with constant prices under which all programmes have to be revalued on a new base every year is that linkage between the newly calculated and old programmes becomes extremely difficult; a recalculation of the historical part and of earlier estimates is required in order to obtain any continuous record

and this presents problems of exceptional technical difficulty which increases the longer the period covered."

The government has recently moved to a cash planning basis for the annual survey of public expenditure (much more will be said about this later in this chapter).

Another problem was that while the White Paper figures for central government spending were control figures, those for local authorities were not, except in so far as they related to capital expenditure controlled by government loan sanctions or direct allocations. The government had, and still has, no direct control over the total spending plans of the individual local authorities, though they act as spending agencies for large parts of some of the main expenditure programmes, e.g. education, housing, etc.

Finally, there was the problem of relating spending plans and to some extent the outturns they provided, with little or no information about the outputs planned and achieved, i.e. what are now called the goals or objectives of public spending. Such a problem, of course, is an international one and is attributed to a major factor, the difficulty of evaluating social services in terms of money. Attempts, however, are being made to provide non-financial information and to find more measures of outputs. It is worth noting that the development of cash limits system in 1976/77 and recently cash planning were designed to remedy these problems.

4.4 Central Policy Review Staff (CPRS)

The White Paper on the reorganisation of central government of October 1970 called attention to the need for an analytical basis to strengthen the PESC system (White Paper on the Reorganisation of Central Government, 1970). The government at that time felt that the existing system of PESC was a powerful instrument of demand management and financial control. However, in the government's view, the PESC system does need an analytical support to provide all the information needed by policy-makers. Two major types of information, which are extremely essential for decision-makers, are not provided by the existing system. These include information on expenditure objectives to assist policy-makers in evaluating the department's plans against government strategy, and information on programmes' analysis to ensure the effectiveness of such programmes in achieving those objectives. It was believed that with this valuable information, the PESC system would be more effective.

To achieve this aim, the government proposed to establish a small Central Policy Review Staff (CPRS), widely known as the "Think Tank", in the Cabinet Office. The CPRS task was identified by the White Paper (1970) as :

"..... to enable them (Ministers) to take better policy decisions by assisting them to work out the implications of their basic strategy in terms of policies in specific areas, to

establish the relative priorities to be given to the different sectors of their programmes as a whole, to identify those areas of policy in which new choices can be exercised and to ensure that the underlying implications of alternative courses of action are fully analysed and considered."

Thus a team of businessmen were invited to carry out this task in 1970 under the chairmanship of Lord Rothschild. Perhaps it is worth mentioning that such action from the Conservative Government was largely attributed to the fact that "the Conservative Party had shown considerable interest in new methods of planning and controlling public expenditure while they were in opposition" (Bridgeman, 1973). The aim of the government in inviting a team of businessmen to carry out the CPRS task was to benefit from the experience of private business in the area of management and decision-making. This obviously reflects the intention of various contemporary governments of introducing a new style of government, that is to say the application of new business-type techniques and procedures in planning, management and control of public activities.

The aim of CPRS was summarised by Plowden (1974) as "to make Ministers aware, in advance, of the probable and possible consequences of their action or inaction, and as far as possible to see them as related elements in a corporate strategy."

Thus, the CPRS activities are intended to overcome the problem of, among others, fragmentation of government departments.

Such a problem was the result of the fact that "decisions tend to be taken in isolation from each other and sometimes without full understanding of their likely consequences" (Plowden, 1974). It is important to mention that the CPRS does not make policies, it simply provides inputs to help in orderly policy-making. A major contribution of the CPRS has been identified by Plowden (1974) when he stated that "there are often benefits from the CPRS extensive and regular contacts with outside experts. Their advice is valuable not only because their expertise usefully supplements the limited resources of the CPRS, but also because it is given from an independent viewpoint entirely outside the government machine."

One of the major works of the CPRS was the development of Programme Analysis and Review (PAR). It consisted of a regular in-depth analysis of selected programmes carried out by various government departments. It aimed to provide more and better information on programmes under review. It was not a replacement to the PESC system; rather, it was a natural extension of the public expenditure survey system and would support present departmental submissions in the public expenditure survey cycle.

It is worth noting that PAR was an approach to policy analysis introduced as part of a systematic attempt to develop 'rational' government. According to Gray and Jenkins (1982) in the early years some substantial reviews were completed, but from 1973 the exercise faded as less political commitment was devoted to it and constitutional compromise and disillusion spread.

In conclusion, PAR was unable to satisfy the technical, organisational and political preconditions for effective analysis and it was abandoned in 1979.

To conclude this section a word about the achievements of the CPRA seems in order. It seems fair to say that CPRS has developed a role in modern government that no other institution could easily fill. According to Bourn (1979) it has not threatened the independence of ministers; it has not taken over the role of the Treasury; it has not dominated the Cabinet Office; it has not revolutionised the art and science of government. Yet it has made a number of useful analyses and proposals. Its continuing success depends upon drawing the right mixture of staff from inside and outside the Civil Service and taking care not to infringe the responsibilities of departments and ministers. For in this way it can be seen as a colleague rather than a rival by those ultimately responsible for the detailed work of government (Bourn, 1979).

4.5 Public Expenditure Planning and Control in Cash

As has been mentioned before in section 4.3 the annual survey system for planning public expenditure over the medium-term has been in use for around 22 years. For many years the PESC system was conducted in constant prices, frequently and rather loosely described as volume (Likierman, 1981). Recently the prices used were broadly those of the autumn before work on the

survey started, that is, those of a year before the time when government departments took the main decisions and two or more years before the period to which the plans were directed.

Planning in constant prices might have some advantages. It relates directly to many of the operational decisions on recruitment, building, procurement and so on by those managing programmes. The constant price series seems to be a good measure of the physical inputs that will be available to managers (number of teachers or nurses, fuel for heating, hospitals built, or tons of concrete for roads). Its use may help debate on the merits of changes in programmes of expenditure, although it is a measure only of the input to, and not of the output from, those programmes (Economic Progress Report, 1981).

For the first decade or more of the PESC system, working in constant prices fitted well with what was then seen as the main role of macro-economic policy and management of demand. The emphasis in the public expenditure surveys was on planning real resources for public expenditure within the framework of real resources projections for the economy as a whole (Lewis and Harrison, 1982). According to Likierman (1981) it became increasingly apparent that the use of constant prices also has significant disadvantages for planning and control. These disadvantages have become greater in recent years with the higher and more variable rates of inflation, and with the increasing emphasis of successive governments on the control of monetary conditions (Jackson, 1981). It is the actual 'cash spend' by

government which must be considered in relation to, and made consistent with, the government's objectives for taxation, the borrowing requirements and the money supply (Economic Progress Report, 1981).

In the following subsections a brief discussion is given to explore the changes made in the process of planning and control of public expenditure in cash .

4.5.1 Cash Limits

The first significant change came in 1975 with the widespread use of cash limits. Where the first moves to try and introduce a more satisfactory means of controlling public spending were made by introducing a White Paper on Cash Limits on Public Expenditure, building land and various capital programmes including local authorities' construction were made subject to a limit on the total amount which could be spent in that financial year. Then in July 1975, the government went further in the White Paper "The Attack on Inflation" by making it clear that they were determined to contain demands on resources made by public expenditure programmes in order to move resources into exports and investment (White Paper on the Attack on Inflation , 1975). The White Paper went on to say that the system of control needed reinforcing because important changes in relative prices were making it difficult to control public expenditure as a whole (White Paper on the Attack on Inflation, 1975).

In November 1975 a cash limit was announced for the local authorities' Rate Support Grant (RSG) and finally a White Paper on cash limits was published in April 1976 giving details of how a full system would work and publishing the limits for the financial year 1976/77 (White Paper on Cash Limits, 1976). The White Paper (1976) had given a number of reasons to justify the introduction of the system, including:

- (a) to ensure that resources taken by the public sector are sensibly related to the total resources available in the economy as a whole;
- (b) to control the amount exactly spent in the current financial year so that it fits into the plan set out in the annual budget;
- (c) because the budget estimate (when expressed in volume terms) did not operate as a direct control on the amount of cash spent;
- (d) because, when inflation gathered pace and especially as the prices of goods and services increased at very different rates, the budget estimates became even more inadequate as an indicator of the amount of cash that would be needed during the year;
- (e) to give greater financial discipline and precision;

- (f) to contribute to countering inflation by making it clear both to the spending authorities and to suppliers that the governments' purchases of goods and services will have to be cut back if prices rise too high (White Paper on Cash Limits, 1976).

The reasons mentioned above cover the main areas which had been giving cause for concern and they would almost certainly be considered as applicable today. Most authorities also generally welcomed the idea that they should have a clear idea of the total amount they could spend in a given financial year.

To conclude this sub-section a word about the technicality of the cash limit system seems in order. Cash limits were introduced as a control system grafted onto the volume system of planning. The cash limits for the year ahead were based on the plans in the survey, i.e. PESC. But the cash limit once set was the determinant of expenditure during the year, not the volume plan. This required the plans to be revalued from the constant 'survey prices' to the expected prices for that year for the cash limit. For instance, for 1981/82, the cash limits were based on the plans in the 1980 survey, decided by ministers in the autumn of 1980 and published in the March 1981 public expenditure White Paper. The plans in 1980 survey prices: that is, autumn 1979 prices, had to be revalued to expected 1981/82 prices. The average change was over 30 per cent (Economic Progress Report, 1981).

It is worth noting that cash limits cover, directly or indirectly, about 60 per cent of total public expenditure. The rest is expenditure which, in the short term, is determined by demand. According to the Economic Progress Report (1981) the main example is social security benefit payments, where once rates of payment and criteria of eligibility are set, the amount paid out depends on the number of eligible claimants. Now the government has decided that this approach does not go far enough. Since 1982/83, as we will see in the next subsection, spending plans, as well as control figures, have been set in cash terms.

4.5.2 Cash Planning

In his budget statement on 10th March 1981, the Chancellor of the Exchequer announced that the government had decided to make a major shift in the planning of public expenditure from "volume" to "cash". He stated that:

"In the annual reviews of expenditure the Government would, from the outset, conduct their examination and discussion in terms of the cash that would be available" (Economic Progress Report, 1981).

As from 1982/83 the Public Expenditure White Paper was expressed in cash terms for the first time. No longer are past

expenditure, or plans for future expenditure, measured at constant prices. This switch is an important one and reflects the government's belief that plans expressed in terms of what cash is actually to be spent are a more effective means of controlling public expenditure than plans expressed in volume terms (Lewis and Harrison, 1982). The new step is to convert the planning system onto a cash basis, bringing it into line with the control system, i.e. cash limits.

According to the Economic Progress Report (1981) the cash planning system was expected to produce a large number of advantages, as follows:

1. Ministers discuss the cash that will actually be spent, and therefore what will have to be financed by taxation or borrowing, instead of talking about 'funny money' - the constant price numbers, which can be misleadingly different from the resultant cash spend;
2. Expenditure figures can be related more readily to the revenue projections, so that 'finance (can) determine expenditure and not expenditure finance';
3. Changes in public sector costs are brought into the discussion. The constant price system did not bring out the effect of, for example, the

rapid relative rise in public service pay in 1979/80 resulting from the Clegg Commission and other comparability awards. Nor, conversely, did it enable the planning figures to reflect the Government's stance on pay since then;

4. Previously, the 'volume plans', that is, plans expressed in constant prices - were regarded by spending managers as entitlements, carried forward from year to year regardless of what was happening to costs. This meant that programme managers had little incentive to adapt their expenditures in response to increasing relative costs, except in the short-term in response to the annual cash limits. For example, if a programme successfully absorbed a cash limit squeeze in one year by increased efficiency, this expenditure saving was not carried forward into future plans. The presumption now shifts in favour of maintaining planned cash expenditure, rather than a given 'volume' of provision regardless of cost;
5. The decisions in the annual survey, as they relate to the year ahead, can be translated directly into the cash limits and estimates presented to Parliament, without revaluation from one price base to another.

The above-mentioned Report goes on to say that, by causing spending managers to think more about what level of service they can provide with a given amount of money, the change to cash planning should reinforce two desirable trends in the management of public spending programmes. The first is the continuing emphasis on value for money: the constant price system does not supply any pressure to reduce costs, since the 'volume' of resources required for any one programme was protected against rising costs. The second is the need to assess what is being achieved, preferably quantitatively. In the past, volume figures have too often been accepted by themselves as satisfactory measures of the output of a programme (Lewis and Harrison, 1982).

In conclusion, it can be said that the cash planning system has been introduced to promote the three main objectives of any public expenditure planning and control system. Firstly, to provide ministers with a framework within which they can make rational decisions, both on the total and on the composition of public spending. Secondly, to contribute to effective management of the economy by ensuring that spending targets are met. Thirdly, to provide a framework within which individual programme managers can make sensible decisions on the use of the resources over which ministers have given them disposal.

It should be borne in mind that within the context of cash planning system, the local authority has to make assumptions about future levels of inflation before it can see what sort of

changes in volume terms would be compatible with those plans over the next few years. It must also decide whether to adopt a cash planning basis for its budget, or whether to continue to measure plans in volume terms in order to show clearly the extent to which services are planned to improve or decline. According to CIPFA (Volume 4) many authorities regard it as important that they continue to express budgets in volume terms.

4.5.3 Monitoring and Control

The control system for government expenditure as a whole, known as FIS (Financial Information System) was developed between 1974 and 1978 (Likierman, 1981). Cash limited expenditure is covered by two monitoring systems. The first monitors central government Voted expenditure and local authorities' capital expenditure against Votes and cash limits in the form of both cash and volume on a quarterly basis. The second monitors central government cash expenditure on Votes.

The quantity information splits the variation from budget into pay and price elements and distinguishes between volume and price changes. The expected outturn for the year as a whole is also given. These figures are made available both to the Treasury and to the responsible spending departments to enable appropriate action to be taken if required.

This quarterly monitoring system is supplemented by monthly figures on Voted expenditure in cash terms based on information provided by the Paymaster General's Office. The information is available within five working days of the month's end. The Treasury compares actual to budgeted figures which they calculate from the quarterly forecasts provided by departments. The analysis indicates areas where questions may need to be asked and action may need to be taken, and leads to regular discussions between the Treasury and departments. Figures comparing outturn to forecast at the half year are the only ones made publicly available, normally through a Command Paper presented to Parliament in November (Diamond, 1975).

4.6 Summary and Conclusion

Because of its limited resources and an increasing public demand for its services, every government in the world is confronted with the problem of allocating limited resources among competing claims in a way that maximum benefits will be achieved. Traditional government decision-making systems proved to be inadequate to cope with the increasing activities and responsibilities of modern governments.

Growing dissatisfaction with the traditional system has led to an increasing effort from many governments, all over the world, to find new methods and techniques to improve the quality of decisions. As a result, a number of new concepts have been introduced in various countries. Perhaps the most well known

system in this respect are the American PPBS, and latterly ZBB.

In the UK, the last two or three decades have witnessed a tremendous change and developments in the field of government decision-making. There was a widespread dissatisfaction in the 1950s and the mid-1970s with the way that public expenditure was planned, managed, controlled, and monitored. In response to such dissatisfaction the PESC system was developed in 1961 to improve expenditure decisions. Under this system, public expenditure was considered as a whole for a period of a few years ahead (varied between two and five) and expenditure was grouped according to a functional classification. Such a system aims mainly to improve the allocation of resources. It is a way to avoid the traditional practice in many countries of allocating available resources, that is to say, the projection of the next year's expenditure on the basis of the previous year's expenditure by increasing or decreasing the previous year's amount by an equal percentage to all departments. This difficulty was recognised by the Plowden Report (1961). The Report stated that:

"such an attempt will either fail, in that the most urgent programmes will avoid the cut, or if it is successful will almost certainly result in misdirection of resources."

By 1970, after about ten years of experience with the PESC system, it was realised that the system needed to be strengthened by carrying out a regular in-depth analysis of expenditure

programmes to provide more and better information to help Ministers in making the appropriate decisions. Consequently, the PAR programme was developed in 1971, but it was unable to satisfy the technical, organisational and political preconditions for effective analysis, and it was abandoned in November 1979.

The main allocation of public expenditure through the PESC system is concerned primarily with competition over increments of expenditure. PESC is an annual review of expenditure conducted - until 1982 - in volume or constant price terms; therefore programmes were insulated from inflation (Walker, 1982). The Plowden Committee argued that continuity in public expenditure is important for the continuity of individual programmes, but also for economic management (Vinter, 1978). It called for medium-term planning in relation to prospective resources. The first task of PESC was to reduce expenditure but after 1961 increases in public expenditure were to be kept in line with resources. This policy was not technically successful because between 1963 and 1967 the public sector's share of GDP increased by 4 per cent in volume (Blackaby, 1979). This increase, however, was primarily a consequence of a tendency to over-estimate the resources available and to under-estimate the public sector's demand for them, and also of GDP shortfalls.

Volume planning was sustained until the advent of high levels of inflation, although the relative price effect had been recognised from the outset of PESC (Treasury 1963). Significant

changes in the nature of public expenditure planning began in 1968, following the devaluation crisis (Walker, 1982). Growth paths of public expenditure were specified annually in an attempt to stabilise the growth of expenditure. Also, concentration was put on the third year of the planning process rather than the fifth as a basis for decision-making. The transition from the control of volume to the control of cost took place in 1975, with the introduction of cash limits in response to greater than predicted levels of inflation and hence relative increase in public sector costs (Likierman, 1981). They were first applied to some central and local government building programmes, and in 1976 were extended to cover 40 per cent of central government expenditure, local government capital expenditure, the RSG and the borrowing of nationalised industries. Cash limits quickly proved to be effective: in 1977/78 expenditure fell short of cash limits by more than £400m (Justum and Walker, 1979). From the middle of the 1970s, therefore, more attention was paid to financial planning and the cost of programmes and less to the aims of the service priorities within them (Wright, 1979; Glennester, 1980).

In the latter half of the 1970s one of the main objects of governments of both parties was to bring public expenditure under control, and to achieve this the PESC system of medium-term expenditure planning was subjected to short-term financial control through cash limits. This gradual change in the balance between fiscal and monetary policy began, as we have seen before, in the mid-1970s and concentrated on reducing

public expenditure, controlling the growth of the money supply and of the public sector borrowing requirements, which had not previously been under the direct control of government. However, the present government has decided that this approach does not go far enough. For 1982/83, spending as well as control figures, have been set in cash terms, i. e. cash planning. Accordingly, the PESC system itself has been conducted in cash terms for all the years it covers. But will the new system be more successful than the old one? The government itself appears to regard the change as highly significant. The use of cash represents, as the Treasury acknowledges, a change in the price base, not in the objectives of the system (Economic Progress Report, 1981).

It is safe to assume that the reason for the British government to adopt a rather limited and modest approach towards the improvement of the government budget was mainly to avoid the faults and the disappointing results of the American experience with PPBS in its federal government. ⁽¹⁾ However, such developments have been the outcome of continuous efforts by the government in the UK to improve the quality of decisions to make better use of national resources. As Hirsch (1973) concludes, "the British experience in this respect offers a lot of lessons to be learned."

(1) The British experience with PPBS in some central government departments is discussed in Appendix 4.1.

CHAPTER 5

THE STRUCTURE OF ENGLISH LOCAL GOVERNMENT

5.1 Introduction

Local government plays an essential part in English democratic government. The local authority aims to help in solving people's problems and to fulfill their needs as effectively as possible. Its role is not restricted to the traditional function of providing services for local people, but it also has the potential role in contributing to the well-being of the local community. Because of its important role, it is vital for a local authority to improve its effectiveness and efficiency in carrying out its activities.

Local authority management is in a difficult position these days. It has to fulfill the growing needs of the community on the one hand and on the other, it has to respond to the requirements of central government by economising in accordance with the general policy of reduced public spending. It has limited powers, is subject to external restraints, and has duties placed upon it by functionally conceived legislation. The environment surrounding the local authority plays a critical part in its existence, processes and decision-making.

To understand the budgetary techniques and financial control procedures employed in English local authorities, which

will be discussed later in the coming chapters, an attempt is made in this chapter to examine the role of local authorities in the economic life and its structure, as well as in the decision-making process. To achieve the purposes of this chapter, it has been divided into Four main sections, as follows:

1. The importance of local government, its objectives and environment.
2. Re-organisation of local government in the 1970s.
3. Organisational structure and the decision-making process.
4. Summary and conclusion.

5.2 The Importance of Local Government, Its Objectives and Environment.

Like many aspects of British life, the institutions of local government have evolved over hundreds of years to meet the needs of local communities (Jewell, 1975). The demands and needs of the community, and sometimes other institutions such as central government will change over time. For local government to be capable of coping with change, it would be better for it to be, to some extent, a reactive system (Eddison, 1975). It

responds to the prevailing culture or social climate, to a kind of local consensus of what should and should not be done. Local government provides a very wide range of services which as with the nationalised industries, have a daily impact on almost everyone. They are labour-intensive, employing over two million people, and account for about one sixth of gross national products. Just under a third of all houses in Britain are rented from local government (Henley et al. 1983).

Local government has a great role to play in the people's life as has been mentioned above. The Bains Report (1972) recognised this important role:

" Local government is not, in our view, limited to the narrower provision of a series of services to the local community, though we do not intend in any way to suggest that these services are not important. It has within its purview the overall economic, cultural and physical well-being of that community, and for this reason its decisions impinge with increasing frequency upon the individual lives of its citizens".

Furthermore, the Royal Commission on Local Government in England in its Report (1969) emphasised the role of local government as an essential part of English democratic government. In the committee's view the adoption of the proposed reorganisation would make local government a more effective part of the government. The goals of local government may be considered as a form of output. The tangible outputs are buildings, roads, schools, and service to citizens. These outputs are supposed to be the realisation of the goals. There are also less tangible goals such as civic pride and a sense of belonging to a community, and pleasure generated by the aesthetic outputs such as parks, and well-designed buildings. These outputs sometimes are the goals, sometimes contribute to them or they may in a sense, create the goals.

Thus local government is not only concerned with the provision of services, but also with the overall economic, cultural and physical well-being of the community (Levin, 1975). This might be considered an ambiguous objective. Therefore, local authorities are mainly concerned with non-trading activities. They are not making a product of measurable weight and quality, they are, for the most part, rendering feasible services. Whilst it is possible and desirable to express costs over units, the results cannot possibly have the same accuracy as in industry, for local authorities' units are rarely output measures in the commercial sense (Hallows, 1974).

Because of this important role in the economic life, local authorities are under increasing pressure to improve their

effectiveness and efficiency in carrying out their duties. As has been said above, local authorities aim to take part in solving people's problems and fulfill their needs as effectively and efficiently as possible. It is essential for the local authorities to assess each activity in terms of its contribution to meeting the needs of the local community. This process would be used to set priorities and allocate resources accordingly. Also, the attitude of people who receive the service must be examined and assessed to see whether such a service is appropriate, and effectively and efficiently provided (Bourn, 1979).

As a service institution, local government needs to manage its affairs in a more systematic way by focusing on the importance of cost control on the one hand, and the emphasis on the right results, on the other hand. And this is exactly what the recent developments in the management of local government are trying to achieve.

Now we turn to discuss the environment of local government. As a matter of fact local government emerges as an important, multipurpose institution, disposing of a considerable share of the national resources, even though overshadowed in many ways by the central government (Buxton, 1970). Increasingly in this century, central government stands or falls partly on its policies for local services, naturally claiming credit for local authorities' achievements, and casting the blame upon them for lapses.

There is difficulty in local government of securing independent criticism. The problem exists because local authorities are elected bodies accountable to their own electorates, not Parliament, for their policies and administration. Central government exercises a good deal of control over local government. The relevant minister can make decisions binding particular authorities to action or preventing action (Jewell, 1975). Control varies from specific inspections to very broad rights given to a minister to exercise more direct control over appointments.

Theoretically it assumes that the local authority can take a synoptic view of local conditions, trends and prospects, based upon deep analysis of environmental, economic, financial, demographic, social and other factors. It further assumes that the local authority has the ability to assess community needs. Finally it assumes that the local authority is supposed to be able to decide in which direction and to what extent it will meet the demands. The actual situation is very different. The local authorities have limited power, are subjected to external restraints, have duties placed upon them by functionally conceived legislation. At the same time, a local authority's jurisdiction and autonomy are limited, and are diminishing. Its services are rather becoming greater while government prescriptions about policy are increasing (Bekey, 1976).

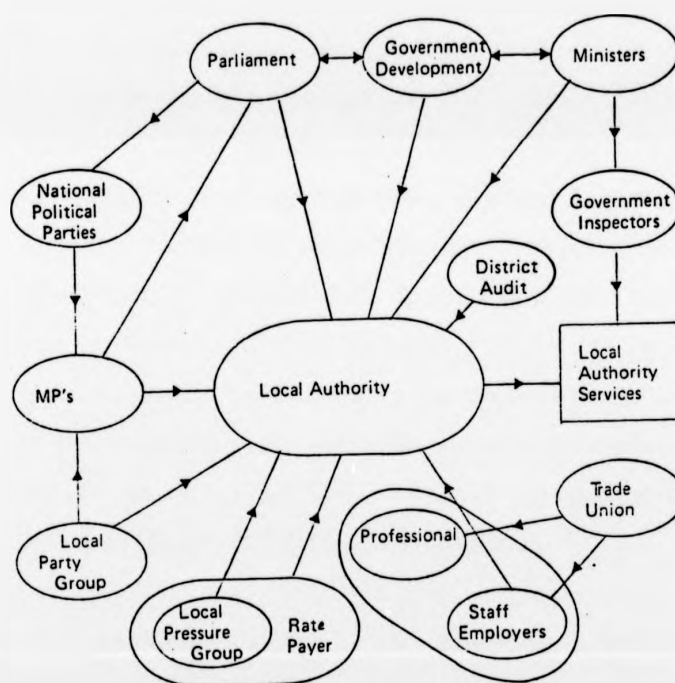
The central government, not the local authorities, determines the nature, scope, quality and direction of the

principal local services (Kanter, 1973). It settles financial arrangements for its contribution by way of block grants or specific grants.⁽¹⁾ In addition, the present system of local government creates more difficult problems as the county authorities exercise a broadly strategic role. In spite of the fact that they are responsible for an effective strategic role, they do not control the administration of all services, as some are administered by districts and others by bodies outside local government (see figure 5.1 for the environment of a local authority).

It can be concluded that local authorities are large bodies under the searchlight of public opinion and have additionally to cope with constraints peculiar to themselves in the light of which their management systems have to be devised. The environment surrounding the local authority plays a critical part in its existence. Local authorities survive in terms of their functions in the larger environment of which they are a part. Continuing information about the demands and variables of that environment is, therefore, necessary for survival. Management must generate plans for development, and control operations in order to avoid deviations and evaluate the effect of the output according to prescribed criteria.

(1) Discussed later in Chapter 6.

Figure 2.1

The Environment of Local Authority

Source: The Open University, A Local Government System, A Case Study of Brighton Corporation and Brighton Marina, Bletchley, Buckinghamshire, Open University Press, 1983.

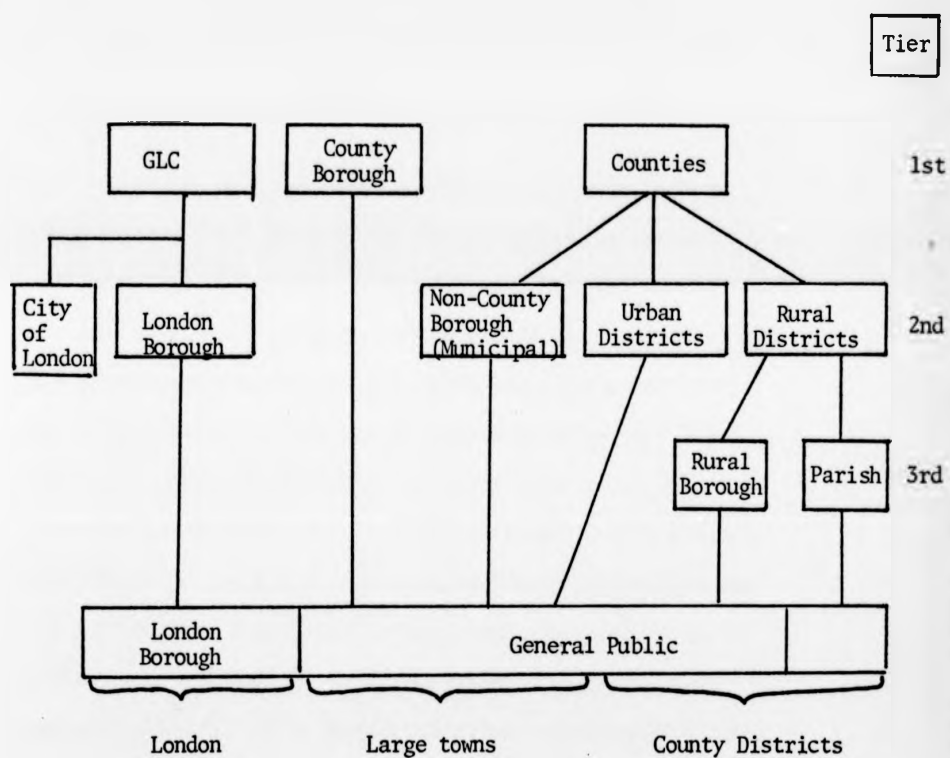
5.3 Reorganisation of Local Government in the 1970s

Before 1974, the existing structure of local government was initially established by Local Government Acts of 1888 and 1889. Things have changed dramatically since that time and life has become more complicated (Bains Report, 1972). Environmental, economic, political, and social factors are always changing. As a result, the need for reform in local government was realised and started in the London area in 1963. In 1966 two Royal Commissions were appointed to examine, review, and report on the organisation of local government in England and Scotland. Two reports by these commissions were published in 1969. They include recommendations which called for the urgent need for reorganisation of local government in order to make it more effective and efficient. It is safe to say that these two Royal Commissions were the response of the government to the shortcomings and weaknesses in local government organisation. The aim was to pinpoint these weaknesses and to prepare the necessary changes required to overcome them.

As shown in Figure 5.2, the structure of local government was a complex array of interrelated structures (Eddison, 1975). London, being a special case, consists of two-tier structure of the Greater London Council and London Boroughs. Large towns and rural areas had two-tier or three-tier structures of the parish councils, municipal, urban or rural district councils. The differences in these three structures are important because different functions or powers are exercised at different levels.

Figure 5.2

The structure of local government
before reorganisation 1974



Source: Eddison, T., Local Government Management and Corporate Planning, London, Leonard Hill Books, 1975.

The county boroughs are simplest to understand in that they combine in one structure all the functions carried out in the different tiers of the other structures. The range of functions was also split in different ways in the various two-tier or three-tier structures. As a result of many anomalies in the basic structure of local authorities, the need for reform in local government was realised.

Furthermore, the report on English local government (Maud Report, 1969) pointed out that local government did not realise fully its purpose, partly because this was due to the fact that local government was severely handicapped by the structure. But partly also it was due to the fact that there were strongly centralising influences at work. The report also attributed some of the weaknesses to the fact that there was too much control from central government over local government. In the Commission's view "local authorities must and can be given a real measure of freedom in reaching their decisions in setting, within broad national policies, their own priorities." This proposed freedom, together with a big reduction in the number of authorities, and the establishment of a central committee for coordination, were three of the basic recommendations of the Commission.

The publication of the Maud Report (1969) was followed by a White Paper in 1970, by the Labour Government, outlining the proposed reform of local government on the basis of the Royal Commission. In 1971, however, the Conservative Government

published another White Paper on reorganisation, with some differences from those which the Royal Commission had proposed. The final reorganisation of local government on the basis of the 1971 White Paper took place in May 1974 in England and Wales, and in May 1975 in Scotland. The aim of this reform was to seek a modern system of local government in order to cope with the modern way of life, that is, to provide more efficient and economic units of government which would be more capable of fulfilling the needs of the public. One of the basic changes was the reduction of the number of local authorities in England and Wales from 1300 to only 422, with the establishment of six new metropolitan counties with high population densities. In Scotland, the number was reduced from 431 to only 65 authorities. Table 5.1 below indicates the principal categories of local authorities in the UK. It can be seen that England and Wales, Scotland and Northern Ireland have different types of local government structures and there is variety in England as between London, Metropolitan and non-Metropolitan areas.

A major feature of British local government structure is the existence of the two-tier system of authorities. The two tiers of local government are functionally separated. The county is not a higher tier authority with the district subordinate to it. They are distinct authorities on all but a few areas, such as planning and transportation, where a county may have a coordinating and policy role. Some services are also delegated by counties for districts to operate on an "agency" basis, most commonly in highways. There are, however, some overlapping

Table 5.1

Principal local authorities in the UKENGLAND

London

Greater London Council	1	
London Borough	32	
City of London	1	
	<hr/>	34

Outside London

Metropolitan Counties	6	
Metropolitan Districts	36	
Non-Metropolitan Counties	39	
Non-Metropolitan Districts	296	
Isles of Scilly	1	
	<hr/>	378

WALES

Counties	8	
Districts	37	
	<hr/>	45

SCOTLAND

Regions	9	
Districts	53	
Inlands	3	
	<hr/>	65

NORTHERN IRELAND

Districts	26	
	<hr/>	
GRAND TOTAL	548	<hr/>

functions and one that has been particularly visible in this respect is the promotion of industrial development. It is important not to underestimate the variety of practice and style of operation of authorities. Each has a different set of problems, of aspects, of elected members and of staff: they are not uniform (Henley et al., 1983). The functions of local government are diverse and the allocation of these functions is summarised in Table 5.2.

Despite the advantages of reorganisation, however, the present two-tier system still suffers from overlapping powers. An analysis of the distribution of functions of local authorities (see Table 5.2) shows that each tier has to co-operate with the other in joint activities of various kinds. This situation has caused many of the powers to overlap between the two tiers of the authorities. For instance, functions like highway maintenance are controlled by districts and counties, which create duplication of effort by both district and county. Despite agency agreements being made between them, allowing one authority to act on behalf of another, they created a lot of problems concerning control aspects. Apart from these problems, another major difficulty is that the distribution of functions especially in the metropolitan areas, caused the financial consequences of the plans of the different tiers of authority to be difficult to reconcile.

Another disadvantage of the present two-tier system is that the county authorities may seek to increase their present range of services at the expense of the second tier in order to ensure a greater ability to implement their strategic plans.

Table 5.2
Main functions of local authorities

FUNCTION	METROPOLITAN COUNTY DISTRICT	ENGLAND AND WALES NON-METROPOLITAN COUNTY DISTRICT	LONDON		SCOTLAND	
			GLC	BOROUGH	REGION	DISTRICT
Consumer Protection	x	x		x	x	x
Education	x	x	(Inner London)	x	x	
Environmental Health	x	x		x		x
Fire Service	x	x	x		x	
Housing	x		x	x		x
Industrial Development	x	x	x	x	x	x
Libraries	x	x		x		x
Passenger Transport	x	x	x		x	
Planning						
- Structure Plans	x	x	x		x	
- Development control		x	x	x		x
Police	x	x	(Central Govt.)		x	

Table 5.2 (continued/...)

FUNCTION	METROPOLITAN COUNTY DISTRICT	ENGLAND AND WALES NON-METROPOLITAN COUNTY DISTRICT	LONDON		SCOTLAND	
			GLC	BOROUGH	REGION	DISTRICT
Rate collection	x	x		x	x	
Recreation	x	x	x	x		x
Refuse Disposal	x	x	x			x
Social Services	x	x		x		
Transport and Highways						
- Policy and Principal Roads	x	x	x		x	
- Non-Principal Roads	x	x		x	x	

Source: Henley, D., Holtham, C., Likiernan, A., and Perrin, J., Public Sector Accounting and Financial Control, England, Van Nostrand Reinhold (UK) Co. Ltd., 1983.

This particularly represents a potential area of conflict in the metropolitan areas where the county's role is more nebulous and confined than that of a non-metropolitan county. This could have two consequences. Either the metropolitan county may seek to encroach on the functions of the district, or the metropolitan county could become frustrated and lose a sense of purpose. This would be damaging to the local government system as presently conceived.

Although many changes have been made in the distribution of control of local affairs by the reorganisation, what is controlled has altered little. A local authority has difficulty in planning effectively. In the present local government structure, although the county councils are the planning authorities and plan makers, they have few powers of implementation, either directly or indirectly. Generally, the county is responsible for the development of strategic plans for the county area, and the district for the local interpretation of that plan by the preparation of local plans. In practice, this division is not easy to maintain, and might be a cause of friction between the two tiers. It can be concluded that although there is some kind of relationship between a district and its county, both are independent of each other in many respects. The county council can pass some powers down to the district council; however, the system is not pyramidal, and districts exercise their principal powers independently of the county.

5.4 Organisational Structure and Decision-Making Process

Generally speaking, decisions in local government are taken by the elected members. So, in effect, the local authority is run on a political base (Eddison, 1975; Henley et al., 1983). The council is the ultimate decision-making body of the authority. This factor must be borne in mind when discussing the various aspects of local government.

The local authority is organised on a functional basis. It is divided into several departments where each department is responsible for undertaking a major activity within the policy formulated by the council. A department is headed by a chief officer director who is responsible directly to the Chief Executive. The Chief Executive in a local authority is the head of the paid officials without a departmental responsibility. The need for a departmental system has been considered essential because of the nature of the local authority as a large-scale organisation. Figure 5.3 illustrates a typical structure of a county council's departments.

Therefore, the best we can do to ensure effective and rational decisions by elected members is to provide them with relevant, up-to-date, accurate, and comprehensive information together with the necessary technical advice. It is elected members, not the officers, who make the decisions to choose between building a new school, or a new home for elderly people. However, it is the duty of the officers to provide all the

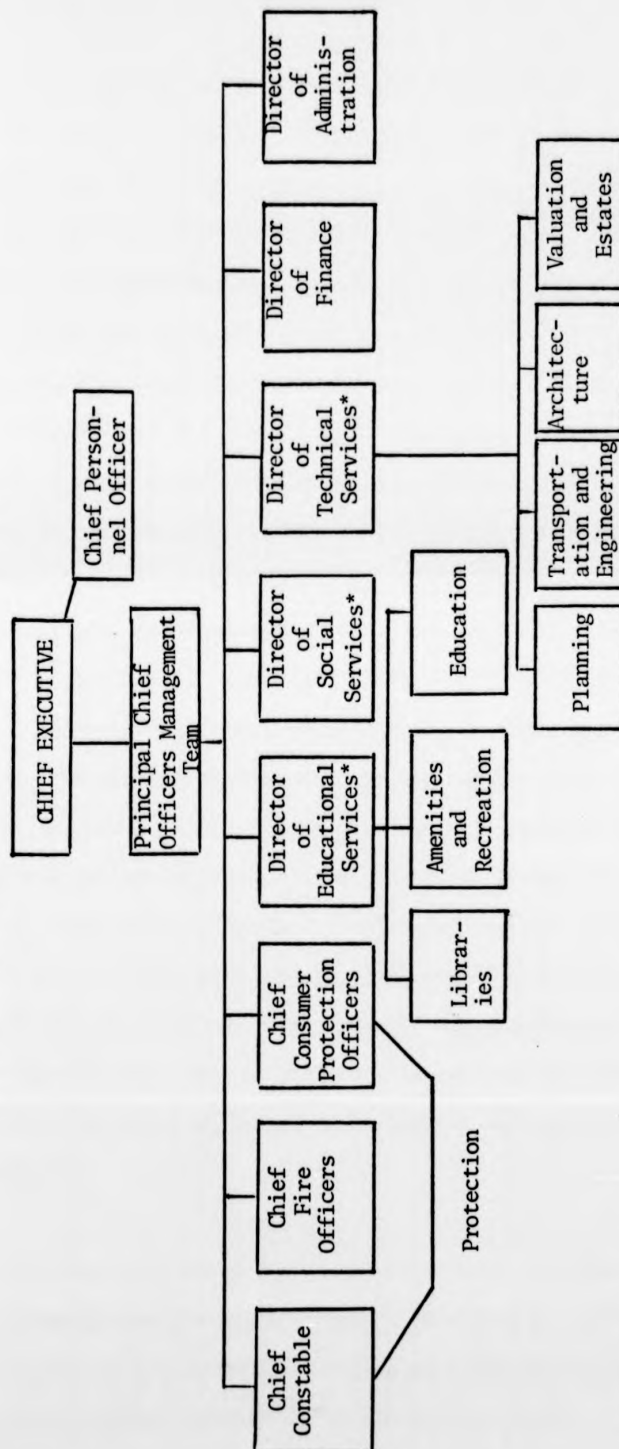
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Figure 5.3
Departmental structure of non-Metropolitan County



* Members of Management Team

Source: The Study Group on Local Authority Management Structures, Steering Committee, The New Local Authorities Management and Structure, London, HMSO, 1972.

necessary information in a systematic way to enable elected members to make a rational decision between the two alternatives.

As a matter of fact, a pure rational model of decision-making can not be achieved because of the limitation of our knowledge, and the existence of uncertainty (Stewart, 1975). That is, a pure model would be a real one if we could identify all alternatives and predict future events without uncertainty. Since this can never be achieved, the pure rational model is impossible to develop. The existing managerial techniques, however, offer a considerable help in reducing, but not eliminating, the degree of uncertainty.

Perhaps the most difficult aspect in the local authority, apart from the political forces, is the nature of the activities that these authorities are undertaking. In other words, the output is mainly services to the public which are very difficult, if not impossible, to measure in physical terms. Although there is no single quantitative criterion of success in the local authority, we can try to assess services by using some indicators of effectiveness, such as cost-benefit analysis of ongoing revenue, cost effectiveness analysis, and financial and non-financial statistics.

Another important feature of local government structure is the committee system (Marshall, 1974). In practice it is found to be difficult to control such complex organisations by monthly meetings which may include up to one hundred people. Therefore,

the council sets up a committee system to deal with specific topics, bearing in mind that certain of these committees must be established by law. Figure 5.4 shows the principal committees of a typical county council. Each committee is formed by a number of elected members who are responsible for making decisions and plans on one of the authority's major activities. For example, the housing committee is responsible for the allocation of resources made available to the housing programme. The committee reaches its decisions on the basis of information provided by the housing department or any other department and in the light of the authority's objective on housing, Information on the needs and problems of the community related to housing, economic and social data, data on population and environment, and government regulations and requirements on housing. During this process the members of the committee, of course, work very closely with the officers in the housing department and any other service departments, the treasurer's department for example, to obtain information or to seek any technical advice.

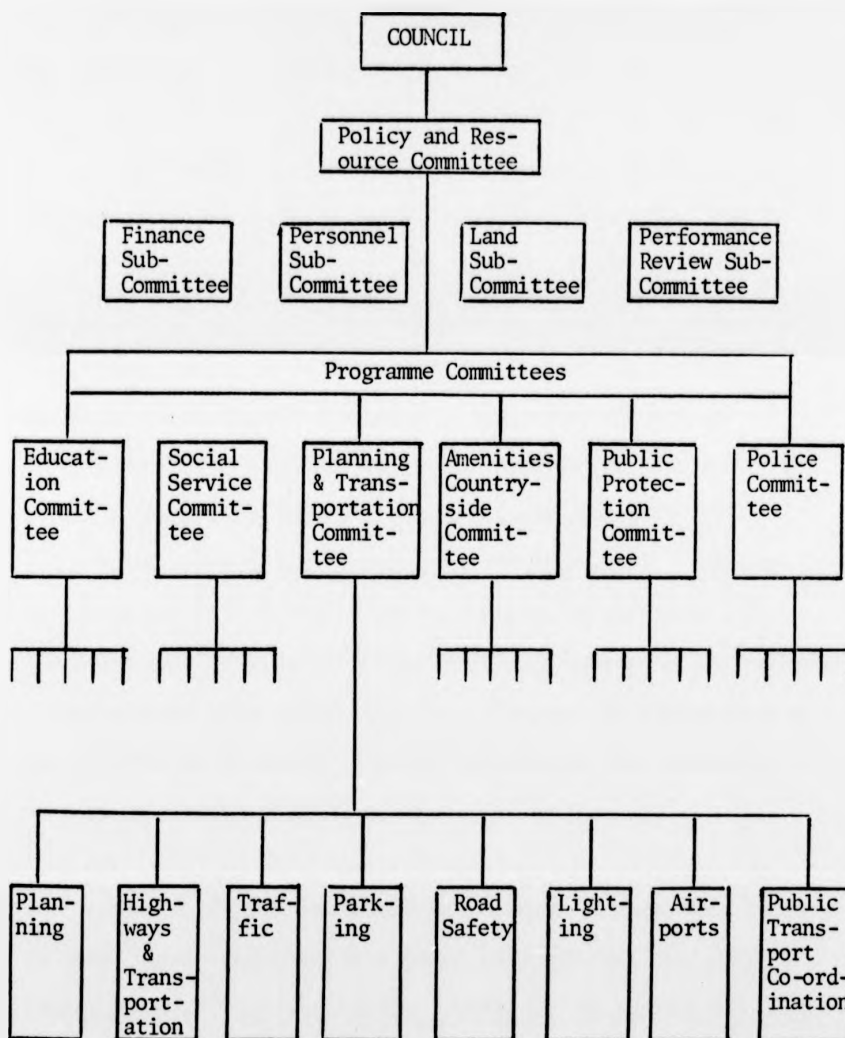
Thus, a good and harmonious relationship between elected members and officers is very essential for effective management. The Bains Report (1972) emphasised the need for such a relationship:

"There must be clear understanding by members and officers of their respective roles so they can forge an effective partnership."

It is important also to maintain such a relationship and to ensure that the authority's business is carried out as planned, and that

Figure 5.4

Committee structure of a typical non-metropolitan County



Source: The Study Group on Local Authority Management Structures, Steering Committee, The New Local Authorities Management and Structure, London, HMSO, 1972.

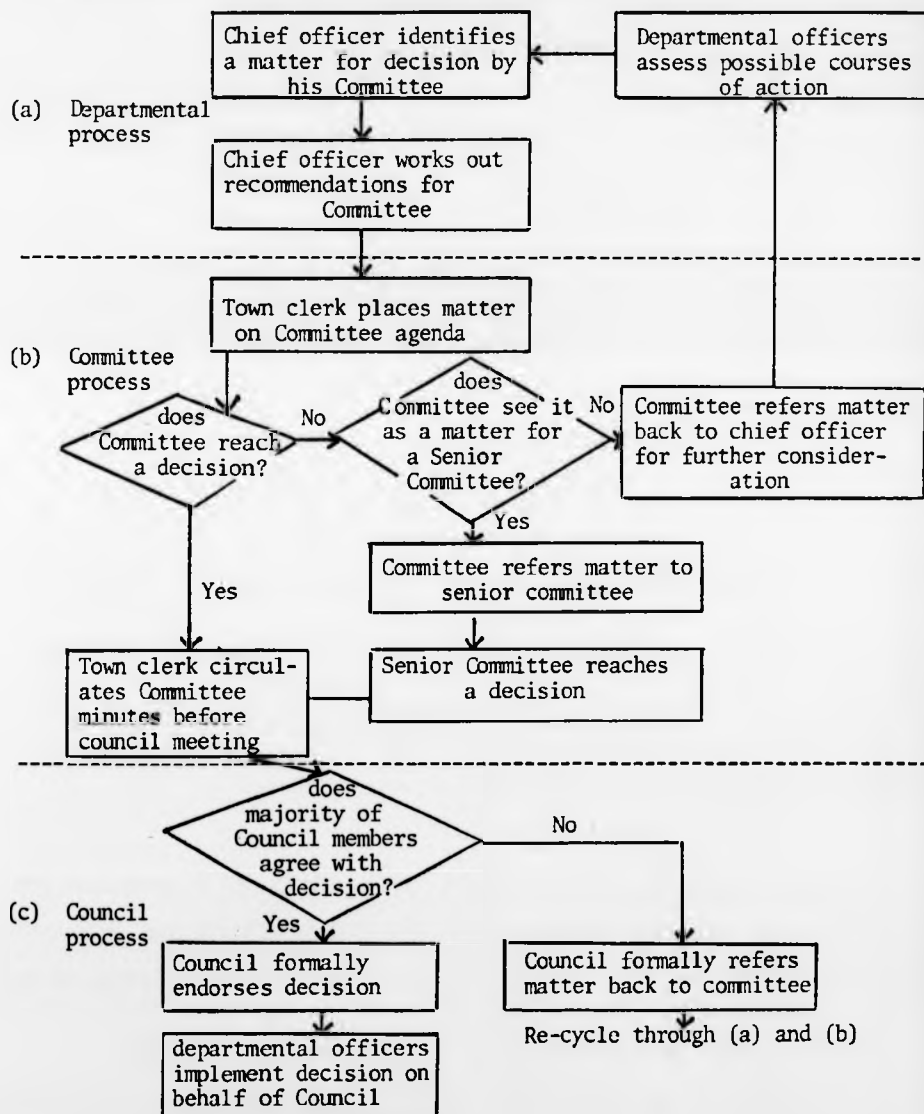
some delegation from members to officers is secured. The Bains Report (1972) indeed recognised the need for a certain delegation to officers. Of course, there must be a certain limitation on such delegation to allow the members to control the authority's activities.

Each committee after formulating the policies and programmes of the activity for which it is responsible, submits these programmes to the council for approval and to be implemented by the departments concerned. Figure 5.5 illustrates the formal process of decision-making in a local authority. Although the system of committees in local authorities has been criticised by many people, it has been established to overcome the problem that the council cannot deal with all detailed business in the meeting of the full council. However, following the publication of the Maud Report on Management in Local Government, which criticised the large number of departments and committees, many authorities have accepted its recommendation for the need to reduce the number of departments and committees as a means of increasing management efficiency.

The traditional organisation structure in local government has been under criticism for a number of years now. The Maud Committee of 1967 has contributed greatly to the recognition of the need for organisational changes in local government to make it more efficient. The Report (1969) raised the following organisational issues:

Figure 5.5

The Formal Process of Decision-making in a Local Authority



Source: Friend, J. K. and Jessop, W. N., Local and Strategic Choice, 2nd edition, Oxford, Pergamon Press Ltd. 1977.

- "1. The need for a committee to give unity of direction at member level.
2. A reduction in the number of committees.
3. A review of the division of functions between members and officers, i.e. increased delegation.
4. The need for the Clerk as Chief Executive Officer to give unity of direction at officer level.
5. A reduction in the number of departments".

The deficiencies in the local government system of administration were outlined by McKinsey and Company Inc., in their report on the case of Liverpool (Eddison, 1975):

- "A. The corporation has difficulty in deciding priorities rationally and planning effectively.
- B. The corporation has little or no control over departmental efficiency and effectiveness."

and according to the report, "the City has neither the organisation structure, nor the planning system, nor management methods commensurate with the job".

It is appropriate at this point to mention the fact that the recommendations made by the McKinsey Report to the City of Liverpool were considered by many local government officials as unworkable. However, it was widely accepted that the analysis of the problems and issues facing that authority were adequately characterised. The experience of Liverpool had affected the attitude of many local authorities toward consultancy firms. Many believe that any workable solution to local government problems can only emerge from the local government people themselves.

Also the Bains Report (1972) identified some of these issues. The basic recommendation of the report was the need for the local authority to adopt the corporate approach to planning and management in order to use resources effectively and efficiently. The response to these reports by local authorities varied from one authority to another. However, it is safe to say that in general, both the Maud and Bains reports have had a deep influence on the attitudes of many local authorities toward the need for organisational changes.

As a matter of fact the Bains Report has influenced many organisational changes in local government. The basic changes were the appointment of a Chief Executive as a head of the paid staff without any departmental responsibilities, and the establishment of a central policy and resources committee to

aid the authority in setting objectives and priorities, co-ordinating and controlling the implementation of these objectives, and monitoring and reviewing performance.

These basic proposals were, in the committee's view, required in order to adopt the corporate approach to planning and management. The need for a central committee, as proposed by Bains, stems from the fact that committees are working in isolation from each other and a committee as such would make the work of various departments and committees more effective by looking at their activities as a whole.

Normally, the central policy committee is responsible for formulating the long-term strategy and policies for each major activity. The detailed short-term plans are intended to be in accordance with long-term policy and in the light of the resources allocated, and this is the responsibility of the committee concerned with the particular activity.

The corporate approach proposed by the Bains Report has been criticised by some officers in some local authorities for its practical difficulties. Its application has led, in their opinion, to the situation where there is too much centralisation (Hallows, 1974). However, what is happening in such authorities cannot simply be attributed to the corporate approach which seeks effective decision-making by looking at the authority's activities as a whole to avoid fragmentation and duplication. The Bains Report, on the other hand, as indicated earlier, emphasised the need for more delegation from members to officers,

and a good relationship between them, in order to run the business of the authority more efficiently and effectively. It is important to stress the point that the corporate approach does not mean too much centralisation, rather, it aims for more co-ordination between the various committees and departments. The elected members should not interfere in the day-to-day management, which is the responsibility of the officers. Corporate planning will be discussed in detail later in the next chapter.

To conclude this section, it is appropriate to mention that one significant feature of a corporate planning approach, that is the role of the budget and the need for its improvement, has not been considered by the Bains Report. The budget is an administrative device in which the financial implications of the authority's plans and decisions are reflected. In order to be an effective device, it must be based on programmes and there should be a greater linking between planning and budgeting.

5.5 Summary and Conclusion

Local authority organisations suffer from certain shortcomings and weaknesses as a result of overlapping powers. Their objectives are not defined clearly, they have difficulty in deciding priorities nationally, and in planning effectively. Local authorities are actuated by functional pressures rather

than by a sense of unity - councils are too large and committees are too numerous.

In order to seek effective decision-making, viewing an authority's activities as a whole, the traditional departmental within much of the local authority must give way to a wider ranging, corporate outlook. Corporate planning means that each authority will plan as an authority and not by departments working independently. It means that the planning of their activities will be made in the light of the local community needs and problems. Departments will be concerned with both making their contribution to achieving the council's aims and with controlling the services to this end. They must be effective in the former and efficient in the latter. By making objectives more explicit, the council requires officers to be accountable according to their success or failure in meeting the community's needs, as identified and defined by the council, as well as by their record of efficient administration.

CHAPTER 6

BUDGETARY TECHNIQUES AND FINANCIAL CONTROL PROCEDURES IN ENGLISH LOCAL GOVERNMENT

6.1 Introduction

The growing complexity of modern life, and the public's need for efficient and effective services, have made the task of decision-makers in local government increasingly difficult. In response to these difficulties it seems that the last decade has witnessed a growing interest in improving the traditional methods of management planning and control of the affairs of local authorities. As a result, the new systems and techniques have been introduced in many local authorities in the UK to seek more effective planning, and more efficient management and control, in order to obtain the maximum value from scarce resources.

To understand the budgetary and financial control development in local government, we examine the attempts which are being made to develop better means for resource allocation and financial control procedures. The chapter goes on to discuss the main aspects of the financial relationship between central and local government. Then the chapter explores the development of newer forms of budgeting and financial control.

To achieve the aims of this chapter, it has been divided into four main sections as follows:

1. Local government finance.
2. Financial relationships between central and local government.
3. The development of newer forms of budgeting and corporate planning.
4. Summary and conclusion.

6.2 Local Government Finance

Local government is big business, it spends about £25,000 million a year. This amounts to 30 per cent of all state spending and about one sixth of the GNP. Local authorities manage a total debt over £30,000 million and employ nearly 2.5 million people (Byrne, 1981).

Cripps and Godley (1976) suggested that the local government financial system in Britain has two basic characteristics which distinguish the local authority from a central government department. The first characteristic is that the central government subvention is a block grant which is totally unhyphenated, so local authorities cannot, in the very nature of things, be called to account by central government for the way the grant is appropriated, unlike a department whose expenditure is voted under subheads by Parliament. The second point is that local government,

unlike a government department, raises its own taxes. This means that it has some control over the allocation of expenditure between services.

The existence of the two-tier system of authorities has created some financial problems. According to the financial arrangements for the various authorities, the metropolitan counties spend 20 per cent of total expenditure allocated to their areas and the metropolitan districts spend 80 per cent. On the other hand, non-metropolitan counties spend 85 per cent of total expenditure allocated to their areas, and the non-metropolitan districts spend only 15 per cent (Layfield Report, 1976). This variety of arrangements, according to Layfield, presents in itself formidable problems in constructing a rational and harmonious set of financial arrangements for local government finance. The recent attempts to develop newer budgetary concepts in local government (discussed later in this chapter) are intended to overcome such weaknesses.

This section is divided into subsections to examine briefly the main components of the financial system in local authorities.

6.2.1 Expenditure

The substantial increase in local authorities' spending has led to the need for improvement in the techniques for the allocation of resources to ensure effective use of such resources.

In order to achieve its objectives and to fulfill the community's needs, the local authority must utilise its limited resources in a way that good value for money can be obtained. This, it has been suggested, could not be accomplished unless the local authority moves from a static to a dynamic state (Stewart, 1975). More will be said on this later in section 6.4.

According to the Green Paper on the Future Shape of Local Government Finance (Cmd. 4741) local authority expenditure was one of the fastest growing elements in public expenditure. Throughout the first half of the 1960s it grew about 6 per cent a year in constant prices, about twice as fast as the growth of the economy as a whole. Also, the paper mentioned the fact that the cost of providing local authority services is increasing faster than costs in general. These factors have put more pressure on local authorities to improve their methods of planning, management and control.

To analyse local government expenditure a word about its category seems in order. Expenditure on school buildings and residential homes are examples of what is called capital expenditure.⁽¹⁾ Such expenditure implies that the object of expenditure has a long life, i.e. fixed asset. Such items are usually very expensive and they involve a heavy outlay. For that reason they tend to be financed largely from borrowed money and repaid over a long period. Revenue or current expenditure such as fuel, typing paper, the manpower services and rent are consumed as soon as they are purchased or a short time afterwards, and thus have to be regularly re-purchased. Such items are paid for out of current revenue rather

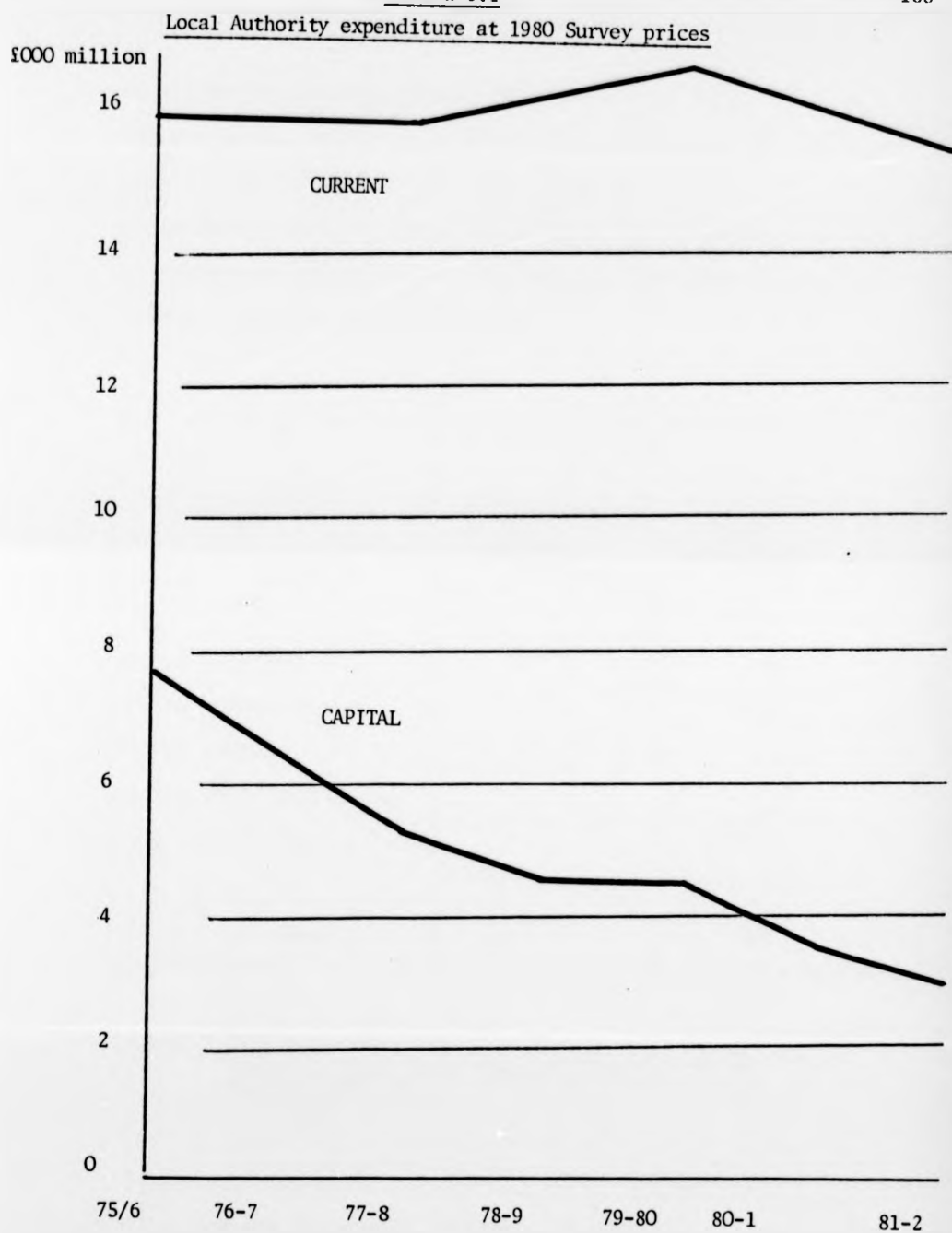
(1) Discussed in detail later in section 6.3

than borrowed money. The distinction between capital and revenue items is not always clearcut, some items could be classified either way, school books for example, but the distinction is important. It would be unfair to spend £1 million on a new swimming pool and charge the full cost to the ratepayers in one year. Many of those ratepayers will move away or die while the asset continues to give service, and new residents, who will not have paid anything towards the pool, will move in and be able to make use of it. By borrowing money to purchase a capital asset, a local authority can spread the cost, of repayment plus interest, over a number of years and so among the actual or potential beneficiaries (Byrne, 1981).

The trends in the two types of expenditure are shown in Figure 6.1. This shows that over the period concerned, most of the decline is accounted for by capital expenditure which by 1983/84 will be reduced to approximately 40 per cent of its 1975/76 level (Jessop, 1981). The historical trends outlined in the figure illustrates the extent to which local government expenditure has already been cut back. Central government must understand that there is a limit to the amount that can be cut without serious repercussions on the standards of services. This situation should make local authorities become more rigorous in appraising priorities by using more policy analysis to minimise the harm to planned programmes.

According to Henley et al. (1983) local authorities are subject to a variety of legislative requirements, their

FIGURE 6.1



Source: White Paper on Public Expenditure, Cmd. 8157,
London, HMSO, 1981.

expenditure has, to some extent, to be sub-divided into separate funds. There are essentially four broad types of funds. Their relative importance is shown in Table 6.1. It can be seen that for revenue expenditure the rate fund overshadows all others, whereas for capital, housing revenue account expenditure is very important.

Table 6.1

Distribution of gross revenue and capital expenditure between funds

Fund	% of Gross Revenue Expenditure	% of Gross Capital Expenditure
Rate fund service	80	49
Housing revenue account	14	43
Trading services	3	2
Special funds (superannuation, capital, etc.).	3	6
Total	100	100

Source: Department of the Environment, Local Government Financial Statistics, England and Wales 1978/79, London, HMSO, 1981.

6.2.2 Revenue

It is probably safe to say that there are three sources from which local authority receives its revenue:

- a. rates levied on local inhabitants;
- b. grants made by the central government, and
- c. charges made for the use of particular services.

In addition local authorities receive a number of miscellaneous revenues, such as interest and dividends, the proceeds of sales of land and property such as council houses and, for the purpose of capital items, by borrowing.

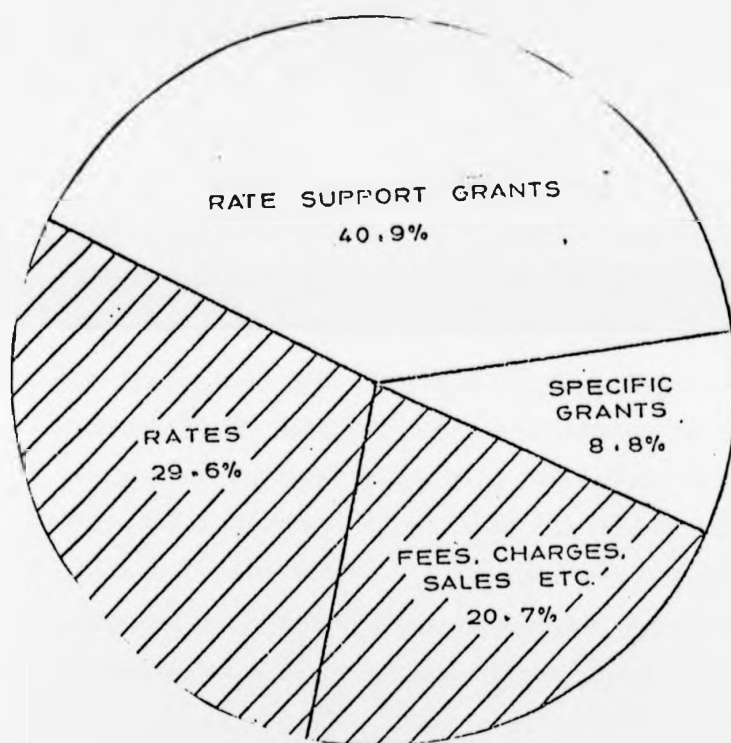
Central government grants to local authorities take four forms: (a) the rate support grant, (b) specific grants, for police, etc., (c) supplementary grants, for transport for example, and (d) housing subsidies, which like student awards and rate rebates, are a special form of specific grant and are subject to separate procedures. These grants represent about 50 per cent of the total revenue. It is perhaps hardly surprising that central government takes so much interest in the details of local authority expenditure. The importance of sales, fees, charges and similar types of revenue is sometimes overlooked and this is an area that is receiving increasing attention (Henley et al., 1983). According to Glasby (1981) the relationship between grants and rates means that relatively small changes in government grant

received can have a quite dramatic effect on rates levied. Figure 6.2 below illustrates the distribution of the local authorities revenue and its percentages.

The Layfield Committee on Local Government Finance (1976) had realised the need for the local authorities to raise their own revenue in order to reduce the large share of central government. It proposed the introduction of a new local income tax to be levied by local authorities. This source of income would allow them to have more freedom in deciding their spending policy guided by potential policy. Also, long before the Layfield Committee, the Committee on Management of Local Government in 1967 had emphasised the need for additional sources of revenue to be available to local authorities in order to have the degree of independence for which they seek (Maud Report, 1967).

Two main problems could arise from the increasing dependence on central government grants. On the one hand, since central government provides a large amount of the local authority's income, it would be accountable for how it was spent (Sandford, 1976). This would mean less autonomy for the local authority to decide its spending policy, and the required accountability. The Layfield Committee (1976) considered the concepts of accountability as the basis for a coherent financial system for local government. In this sense the Committee stated that "whoever is responsible for spending money should also be responsible for raising it, so that the amount of expenditure is subject to democratic control." On the other hand, the government may decide to cut its share at any time as in fact

FIGURE 6.2

Local authorities revenue

Source: Department of Environment, Local Government Financial Statistics, England and Wales, London, HMSO, 1980.

did happen in 1979/80 and 1980/81. Since local authorities have already built their plans on the agreed government contribution, a cut in the services and an average rate will be increased. Hence, the local citizen would be paying more money for less services.

It is widely known that every local authority is now facing the hard choice of having to appraise its whole range of services and programmes in order to make the necessary cut with the minimum burden. This situation supports the argument that local authorities need to raise their own revenue. However, there has been disagreement as to how this should be achieved, if, for instance, a new local income tax is proposed as a resource for local revenue to have some degree of independence. Cripps and Godley (1976) did not agree with the Layfield Committee on the need for a local tax. They argued that "the present sources of income available to a local authority are sufficient to maintain its autonomy, accountability, and equity."

6.3 Financial Relationship Between Central and Local Government

According to Byrne (1981) and Henley et al., (1983), the issue of central and local government financial relationship has been a source of concern on both sides for the hundred years in which modern local government has existed. Formal and informal reviews and reports have been produced, with few changes actually arising from them. As has been indicated earlier the Layfield Committee (1976) discussed many areas of local government finance

and a few key issues relating to central and local government financial relationship. In its report the committee stated that:

"We were asked to consider the whole system of local government finance and we have come to the conclusion that there is at present no coherent system."

The Layfield Report (1976) stated eight requirements needed for a coherent local government financial system, they are:

1. Accountability.
2. Fairness between individuals.
3. Fairness between areas.
4. Balance between consumption and investment.
5. Efficiency.
6. Stability.
7. Flexibility.
8. Comprehensibility.

As a matter of fact the Green Paper of 1977 was the reaction of the government to the Layfield recommendations for moving forward in areas such as Unitary Grant and Advisory Committee on Audit. But the main proposal on a new grant system was subject to great hostility from the local authorities and was dropped (much will be said about the grant system below). The present government reintroduced both the Unitary Grant system (known as Block Grant) and new controls on capital and direct labour organisations in the Local Government, Planning and Land Act of 1980. Further alterations

to the block grant and the new audit system were brought in with the Local Government Finance Act of 1982. These measures were intended to achieve greater control by central government on the one hand and greater accountability to local communities on the other hand.

According to Henley et al. (1983) two alternative systems of local government finance were set out by the Layfield Committee. The first is based on greater central responsibility, under this, both the total of local expenditure and priorities between local services would be decided by the government, which would seem to carry the main responsibilities for expenditure control. The second is based on greater local responsibilities for expenditure control. The idea was that local authorities would be responsible to their electorates for expenditure incurred and revenue raised. Grants would not play a dominant role and the local tax base would need to be widened. The government's power would only operate to meet the needs of national economic management, of which local authorities should have full understanding.

As has been indicated earlier the committee recommended strongly that the only way to sustain local democracy was to enlarge the share of local taxation to make councillors more accountable to local electorates. Thus, a local income tax for this purpose would be justified. It is worthwhile to mention here that since Layfield reported, the local income tax has been rejected by government.

Henley et al. (1983) argue that "most involved in local government in England would argue that the incoherent system of finance discovered by Layfield was becoming even more incoherent

in the 1980s".

The government's response to Layfield's "central" and "local" options was to define a middle way, which Layfield had rejected as a possibility (Henley et al., 1983). The government proposed to develop a block grant and to strengthen financial machinery for four reasons:

- "1. Expenditure Control - central government needs to be able to exert more effective influence over total authority expenditure;
- 2 Equity - ratepayers should pay a similar rate poundage for a comparable level of service wherever they live;
- 3 Accountability - local electors need to have some improved way of assessing local spending decisions and of requiring local authorities to account for them; and
- 4 Policy Control - in some services the government needs to have additional financial powers to promote particular policies" (Henley et al., 1983).

6.3.1 The Rate Support Grant (RSG)

The Central government has been helping to finance local authorities since 1835 (Foster et al., 1980 and Byrne, 1981). The RSG has developed over a long period and has been subject to change of principal and detail, sometimes even within a single year. It is one of the most significant financial mechanisms in the public sector. For instance, in 1982/83 it involved over £9 billion cash being transferred from central to local government in England alone (Henley et al., 1983). The RSG has two main objectives which have always been relatively clear, namely to redistribute central taxation to compensate local authorities for (a) differences in spending needs; and (b) differences in their ability to raise local revenue from their taxable resources. It seems that these objectives reflect a relatively homogenous society.

Every year, central government departments and local authority associations meet to discuss and agree a forecast of total relevant expenditure for local government for the coming year. A percentage of this (from 1974 to 1981, 60 per cent) was funded by the government as RSG. From this total cash available as RSG, were deducted specific and supplementary grants. The net cash remaining was distributed to authorities in three elements: (a) the 'needs' element, its aim was to compensate for differences in authorities' needs to spend. Measuring needs is inevitably subjective and this was done by a formula based on an analysis of relationship between local expenditure and indicators of local needs. It utilised the statistical technique of multiple regression analysis.

(b) The resource element, this enabled all local authorities who received it to spend a similar amount per head for the same local rate poundage. Authorities with rateable values below a national standard received sufficient grant to bring them up to the national standard.

(c) The domestic element, a reduction of rate poundage for domestic ratepayers. This has been 18.5p for a number of years.

As has been mentioned above the RSG is clearly the most important financial aid to the local authorities, however, it has come in for severe criticism. The domestic element, for instance, has been criticised on the ground that it is inequitable, being paid on a flat-rate basis regardless of ratepayers' ability to pay. A second criticism is that, by disguising the true cost, it may be wastefully drawing resources into the housing sector (Byrne, 1981).

The needs element has also been criticised on the ground that it is unduly influenced by local authorities' past expenditure patterns, which may not be an accurate guide to local needs (Cripps and Godley, 1976). The resources element has been criticised on the ground that rateable values are not a fair reflection of property values. Another more general criticism is that the formula on which the RSG distribution is based can be adjusted or manipulated by the party in government to suit its own purposes (Byrne, 1981).

The present government, however, has sought to change the RSG for other reasons which are, to contain local government expenditure, reduce the detailed scrutiny of central government over local authorities, and to encourage greater local discretion. Under the Local Government, Planning and Land Act 1980, a new block grant system has been introduced, for England and Wales only. According to Henley et al. (1983) the main aims of the block grant were as follows:

- "1. To introduce a simple readily understood grant distribution system.
2. To place a limit on the extent to which an authority increasing its expenditure could thereby increase its entitlement to grant (the problem of the over-spenders).
3. To end the system whereby needs element was distributed solely on the basis of an analysis of past expenditure.

4. To stimulate greater public interest in local government and reinforce local accountability.

Under the new grant system, local authorities which spend in excess of their true needs would not receive the same proportionate level of grant support as authorities which exercise restraint on their spending. As a matter of fact, the idea of the new grant system was commended by the Layfield Committee (1976) and was accepted by the government in 1977. It is seen as a means of penalising the "spendthrift" authorities without harming the others, whereas under RSG system, if some councils spent more than the government wished, the latter could take action only by reducing the whole level of its RSG.

The block grant will be calculated for each local authority to cover the gap between the cost of providing services comparable with those of similar authorities and the local rate revenue assuming it to be set at a particular level determined by the government. In effect, the government will calculate what the local authority should spend, it then deducts what the standard or national rate would produce, and the difference is paid in grant. A local authority spending above its norm, officially known as Grant Related Expenditure (GRE), will have to find more from the rates as its grant is reduced or tapered away. The process for producing grant related expenditure has indicators which fall into five main categories concerned with:

- "(a) People in the area.
 - (b) Physical features of the area.
 - (c) Social and environmental problems.
 - (d) Differences in costs of providing services.
 - (e) Special requirements of particular services"
- (Henley et al., 1983).

In this aspect Henley et al. (1983) argue that:

"in theory, the size of any individual service component of GRE for any authority gives no indication of what the authority should spend on that service. It is simply a contribution to the authority's overall GRE. And even the overall GRE is not supposed to direct what authorities should spend, but rather to serve as the mechanism for allocating grant."

Local authorities have reacted strongly against the block grant introduced, however, they supported the government's four objectives but felt that the new system would only partially fulfill them. And it would be at the expense of a fundamental constitutional change in the relationship between central and local government. Actually the first two years of operation of the block grant, i.e. 1981/82 and 1982/83 seems to demonstrate that the fears of the local authorities have in many ways materialised. The government has failed to heed the warnings of the Layfield Committee and has begun to use the block grant system to exert short-term control over individual authorities (Henley et al., 1983).

The block grant system was subject of recent developments. The 1982/83 block grant settlement introduced the concept of volume targets into the actual block grant system itself, in addition to the quite different concept of GRE using a formula that was largely incomprehensible and which reflected many arbitrary judgements. There were also changes in the GRE calculations which affected the position of some housing authorities quite fundamentally. The government then put forward a Local Government Finance Bill including a requirement for referenda before supplementary rates could be approved. This was replaced after Parliamentary pressure, by a No. 2 Bill which proposed, inter alia, to:

1. Abolish supplementary rates;
2. Allow the Secretary of State to adjust block grant generally to achieve any reduction in the level of local authority expenditure, which he thinks necessary, and
3. Allow the Secretary of State to increase or decrease the amount of block grant payable to an authority according to whether or not they have complied with his overall guidance.

A Green Paper was also published on "Alternatives to Domestic Rates", carrying a fairly clear threat that local authorities' source of independent tax could be threatened or at least curtailed. Proposals for a separate block grant for

the education service were raised in the Green Paper and found considerable favour from the Treasury and the Department of Education and Science, who saw distinct advantages in gaining more direct control over local education authorities, particularly higher spending ones. It was also supported by some education officers including those from lower spending authorities (Henley et al., 1983).

6.3.2 Capital Expenditure, its Planning and Control

The Layfield Report (1976) defined capital expenditure as "investment in physical assets which continue to be of value long after their acquisition." In the exposure draft Accounting Principles published in October 1975, the CIPFA's Accounting Panel suggested a revised definition:

"Any outlay which is of value to the local authority in the provision of its services beyond the end of the year of account should be recorded as a capital asset provided there is no legal constraint. Capital outlays which are very small in relation to the general magnitude of such outlays may be recorded in an aggregate minor capital asset account. Capital outlays which are not material to the size and nature of the local authority or which could be consumed in the following accounting period should normally be disregarded

in the asset accounts." (CIPFA, 1975).

It seems clear that this suggested definition is a compromise between the strict theoretical definition and its practical application and could be more acceptable to non local government bodies in the public sector.

As has been mentioned in the previous section capital expenditure is traditionally financed by borrowing, but there are other sources. These include sales of assets such as land and houses, money received from repayment of loans by those who have borrowed from local authorities for house purchase for instance, and revenue from grants. The central government provides capital grants to local authorities for such purposes as road construction, the purchase of derelict land and the adaptation of properties in smoke-controlled areas. The local authorities also receive grant-aid from the EEC for such purposes as industrial redevelopment. In addition to these sources, the local authorities can finance their capital expenditure from current revenue (Byrne, 1981). In recent years the trend has been in this direction, partly as a result of inflation and the high costs of borrowing (Marshall, 1976). Table 6.2 below illustrates the trend of sources of capital expenditure finance.

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Table 6.2

Sources of local government capital expenditure finance

Year Aspect	£m 1978	% 1978	% 1970
Capital grants	263	8	8
Borrowing : From government	362	11	37
From others	638	19	26
Other	337	10	5
Surplus on current account	1,732	52	24
TOTAL	3,332	100	100

Source: Central Statistical Office, National Income and Expenditure, London, HMSO, 1979.

According to the previous system of borrowing approvals the vast majority of capital expenditure was controlled by means of individual loan sanctions, i.e. government approvals to borrow money to meet capital expenditure on a specific project. This was a very detailed and onerous form of control. Over a number of years attempts were made to find an alternative under which it would be possible to simplify the system and dispense with detailed loan sanctions for a large proportion of capital projects. In 1971 the government brought in a new system of borrowing approvals with effect from April 1971. These arrangements

divided capital expenditure into three categories of key sectors, subsidiary sector and locally determined sector.

Expenditure in the key sector was still subject to specific approval, as before, and covered major services over which the government had always exercised considerable control, such as housing, education and social services. The subsidiary sector covered a restricted range of spending, e.g., land for education and social services, and there was a general consent to borrow. The locally determined sector covered all schemes not included in the other two sectors, and expenditure in this sector was controlled by block borrowing allocations notified annually by the government.

The Layfield Report (1976) pointed out that this system did not fulfill its original aims and expectations being too detailed for the major proportion of capital expenditure, with the area left to local discretion being steadily eroded over the years by reductions in the real value of allocations. The Green Paper (1977) suggested that block expenditure controls could be exercised in lieu of the borrowing controls, but following strong resistance by the local authorities the proposals were abandoned in favour of developing the system then being operated.

The present system of capital expenditure planning and control was introduced under Part VIII of the Local Government Planning and Land Act 1980. It involved major changes, whereby the government wanted, for macro-economic reasons, greater control

over what it regarded as high levels of local authority capital expenditure. It also wanted to reduce some of the detailed controls over individual capital projects which existed (Henley et al., 1983).

The new system has defined prescribed expenditure which was to become the basis for control, rather than just the element financed from loan. In other words the government sought to impose a national cash limit⁽¹⁾ on total local authority capital expenditure. As a matter of fact the government made a number of exclusions from prescribed expenditure for control at an individual local authority level. This was due to a very heavy pressure from a variety of interests inside and outside local government. The most significant were police services expenditure, lottery proceeds, finance leasing of under 20 years and expenditure on equipment under £5,000. Henley et al. (1983) pointed out that "although the government did not regard these items as standing to be controlled for individual authorities, it took some of them into account when calculating the national cash limit".

Government departments will annually notify capital expenditure to individual authorities under five service blocks, namely education, housing, personal social services, transport and other services. The purpose of these blocks is to give each authority a clear indication of the priorities of central government, but within the aggregate total of these blocks each authority will be free to carry out unlimited virement to suit

(1) See Chapter 4.

its own needs (Department of the Environment, 1981).

An authority may supplement its allocation by four main methods:

- "1. The application of capital receipts from the sale of assets.
 2. Carrying forward underspendings from the previous year, or anticipating next year's allocation, up to a limit in all of the current year's allocation.
 3. Transfers from another local authority's allocation.
 4. Adding an amount equal to the profit of trading undertakings, as measured on a current cost accounting basis"
- (Henley et al., 1983).

It seems that the last method caused significant controversy because it applied CCA principles to an area where the accounts are not kept on a CCA basis. It was believed by many in local government that the Treasury was less interested in promoting good accounting than in reducing the effect of a concession to local government by the House of Lords (Henley et al., 1983).

To conclude this sub-section a word about monitoring capital expenditure seems in order. The Department of the Environment monitors capital spending from quarterly returns. Each local authority's quarterly expenditure as shown on these returns as compared with an assumed average quarterly expenditure profile. Where it appears that an authority's spending is substantially above what might be expected the Department will consult the authority to establish whether there is likely to be an overspending in the year. Overspending is not itself "ultra vires" but if the Secretary of State issues a directive, because of actual or likely overspending, the authority must have his specific permission to make capital payments. If the authority subsequently ignores this direction and make payments or enters into further contracts this would be "ultra vires".

6.4 The Development of New Forms of Budgeting and Corporate Planning

The traditional management of local government has witnessed a tremendous challenge during the last two decades. As indicated earlier in this chapter, the publication of the Maud Report in 1967 and the Bains Report in 1972 have revealed the weakness and deficiencies in the way that local authorities manage their affairs. As a response to these two reports and the report of Royal Commission on Local Government in England, many authorities attempted to introduce organisational changes

to improve the process of their decision-making. This was emphasised by Norton and Wedgwood-Oppenheim (1981) when they stated that:

"The ideas of introducing organisational changes to improve the process of decision-making were employed in a highly influential report prepared by a body set up by the local authority associations and the Secretary of State for the Environment (the Bains Report), they were closely associated with the attempt to achieve greater rationality in decision-making through the application of a set of structures and procedures."

Generally speaking, PPBS and corporate planning are the two main systems that have been adopted by some local authorities to aid them in improving the quality of decisions on resource allocation and management control to achieve both efficiency (that is, to obtain the maximum benefit from a certain amount of resources), and also effectiveness (which refers to the authority's ability to fulfill the community's needs through its services). The effectiveness concept will be discussed more, later in this section.

6.4.1 Programme Budgeting (PPBS)

As we have seen in Chapter Three the PPB system was originally developed in the USA in the Department of Defense in the early 1960s, with considerable success. This led to the decision to introduce the system to the whole federal government in 1965. The application of the PPBS in these other government departments did not achieve the expected results. Many states and local organisations in the USA have tried the system with various degrees of success. But in general, the American experience suggests that the PPBS, in spite of its practical difficulties, could improve the quality of decisions provided that adequate and careful preparations for its introduction were undertaken in advance. In this section the PPB system is discussed in the context of English local government.

As a matter of fact some of the local authorities were very aware of the need for a new approach to decision-making in local government to overcome the weaknesses of the traditional approaches. The American PPB pilot project on the implementation of the system in five states, five counties, and five cities was seriously considered by many local authorities in this country as a possible application of the PPB system (George Washington University, 1969). Nevertheless, the majority of the local authorities did not favour introducing the PPB system partly because of its disappointing results in the USA, and partly because of its requirements for the use of advanced

analytical techniques. Most of the authorities have found a corporate planning system more practical and easier to introduce (Discussed later in this section).

Advocates of PPBS such as Stewart (1975) and Eddison (1975) pointed out that there was confusion between planning and budgeting. The essentially short-term financial process of annual budgeting was also being used for policy planning. There was insufficient strategic thinking and long-term planning. Local authorities were not clear on their objectives or local needs and had not oriented their financial information to an objective-based (programme) format. Too little attention was given to measuring outputs and to monitoring the outcomes of policies.

In place of this relatively unsystematic approach, Norton and Wedgwood-Oppenheim (1981) described how PPB:

"was a comprehensive model of integrated procedures for analysis of government objectives within an output orientated programme structure, leading to a multi-year programme and financial plan and a reformed budget which would incorporate both input and output data. There was strong emphasis on spelling out objectives of programmes, developing alternatives and evaluating these by systematic analysis of costs and benefit. It

assumed that the analysis would be carried out for the organisation as a whole and was therefore essentially a corporate approach."

It is safe to say that the PPBS was rarely tried in a pure form but, from the Institute of Local Government Studies (INLOGOV) at Birmingham University, as well as from private-sector business consultants, emerged the concept of corporate planning. The IMTA actively promoted discussion of PPBS (IMTA 1967, 1971). Many members of Treasurers' Departments became involved in developing new types of management and budgeting systems (Norton and Wedgwood-Oppenheim, 1981).

However, there were two authorities (Greater London and Gloucestershire) which deeply engaged in developing PPBS and had achieved encouraging results at the start of the 1970s (Pugh, 1974). According to the field study related to this thesis only four English authorities are known to be implementing the PPB system, they are Greater London Council, Sheffield Metropolitan District Council, Horsham District Council and South Shropshire District Council; more will be said about this in Chapter Eight.

In relation to the Greater London Council experience, Pugh (1974) stated that:

"the introduction of the PPB system has rearranged the emphasis from a purely departmental-based management-by objectives approach towards an overall set of programme objectives. Under the PPBS the accounting and reporting systems are extended beyond the traditional control and departmental management purposes."

The idea of introducing a PPB system in the Greater London Council (GLC) first appeared in 1969 as a result of a task force study. The council approved this recommendation in February, 1970. The aim was to introduce a management system for the authority as a whole to use resources more effectively. The first budget to be prepared in PPBS form was the 1973/74 budget. It was based on six main programmes; arts and recreation; housing; public health and safety; strategic planning; transportation, and general services. Each one of these programmes was intended to meet a major set of the council's objectives. In the budgetary document, the budget for 1973/74 and projections for the following years were presented. Every programme and sub-programme contained detailed non-financial information, overall objectives and sub-objectives, and the detailed money required for the budget year as well as the subsequent four years. Appendix 6.1 presents one major programme and its sub-programmes from the GLC as an example of the budget format within a PPB system.

According to Egarr (1982) a modified system was introduced in 1974 which, while keeping the best of PPBS, aimed to be flexible enough to meet the council's changing needs, and pragmatic enough to cope with changes of policy direction. This was after five years of practice which proved to be too rigid to meet the changing demand on it.

However, in recent years there has been the realisation that problems and needs cannot be compartmentalised, that they were in fact intricately inter-related. Additionally as the pressure on resources have increased the need to allocate resources in a way that will achieve the most effective total impact on the community has become increasingly important. During the 1970s, variations to PPBS were advocated, particularly zero-base Budgeting (see chapter three) which is an approach more geared to a climate of restraint and cutback than PPBS.

There is little doubt that planning and budgeting systems in local government have evolved out of the relatively formalistic procedures and systems contained in PPBS to more flexible systems attuned to adverse economic circumstances and indeed the local characteristics of individual authorities (Henley et al., 1983).

6.4.2 Corporate Planning

Corporate planning in its simple definition means a comprehensive future-oriented and continuous process, seeking effective utilisation of available resources in order to fulfill the community's needs in both the short and long-term. It is implemented within a framework responsive to relevant change in the external and internal environment. Planning within a corporate approach means planning as an authority, not by departments working independently. Such planning requires one to look at and consider the authority's activities together, so as to identify priorities according to needs. It incorporates monitoring and control mechanisms (International Management Consultant Ltd, 1975, Hussey, 1981 and Norton and Wedgwood-Oppenheim, 1981). It is important to stress the point that corporate planning is not a panacea. However, if it is applied effectively, it could improve the quality of decisions by clearly defining the public needs and the authority's objectives, and establishing priorities.

Mitchinson (1974) pointed out that:

"The purpose of corporate planning is to bring together into one coordinated and structured document, information on the council's services and policies, its activities and the essential information on the needs of people for which the services are designed. Its function is

to assess, to coordinate, and above all,
to plan over a period which can be foreseen
with reasonable accuracy."

Corporate planning requires that departmental boundaries must be ignored in making allocation decisions. Indeed, one of the main advantages of a corporate approach is that it helps the people in the authority to think and work beyond their departmental boundaries. According to Skitt (1975) the following were the major weaknesses in local government which led to the need for a corporate approach to planning and management:

1. There was too much emphasis on 'departmentalism', with departments acting independently, or in conflict with others.
2. There was insufficient recognition of the relationships between the services provided, and that the increasing complexity of services identified their interdependence.
3. The budgetary process explained, if you could understand them, what resources went into services, but did not show how the resources invested compared with the end product, the services provided.

4. There was too little attention to asking why services were being provided and what needs the local authority was seeking to meet.
5. Too often councillors were presented with insufficient, or not fully relevant, information on which to base long-term and important decisions.
6. The organisational structures and processes often inhibited effective management.

The Corporate Planning Yearbook for 1978 lists over 100 authorities pursuing corporate planning in some sense or other. In 1970 only three or four authorities in London would have been listed and a similar number elsewhere (Honey, 1979). As a matter of fact corporate planning as a reality in some local authorities is much more established. According to the survey study related to this thesis covering 43 per cent of English local authorities, a total of twenty-two authorities have reported the implementation of an integrated system of corporate planning. Ninety-eight authorities (55%) have reported the implementation of some elements of corporate planning system. ⁽¹⁾

(1) Discussed in detail in Chapter 8.

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Now one could ask, why did the corporate planning movement happen. To answer this question, we should return back to the 1960s and the 1970s where a shift in the perception of the task of local government has already been indicated in the quotations from the Maud and Bains Reports. Corporate planning concepts provided a theoretical means to relate local authority action to the newly defined tasks. According to Norton and Wedgwood-Oppenheim (1981) the period of 1963 to 1974 was one of rapid growth in local government expenditure. Total current and capital expenditure by local authorities in this country as a proportion of the Gross Product rose from 8.9 per cent in 1963 to 12.4 per cent in 1974. In a period of overall expansion local government was chasing tasks. It had the marginal resources to expand its functions and was, therefore, receptive to new ideas.

Most important of all were the circumstances of the local government reorganisation in 1974. The period 1966 to 1973 was one in which local government reorganisation of a radical nature was increasingly anticipated. The report of the Royal Commission on Local Government in England raised expectations that functions would be consolidated in "unitary" authorities which would be able to plan across the full range of local government services (Maud Report, 1969). The Institute of Local Government Studies at Birmingham University was deeply involved in a facilitating inter-authority and inter-professional debate on new forms of management to create powerful and effective new local authorities (Norton and Wedgwood-Oppenheim, 1981).

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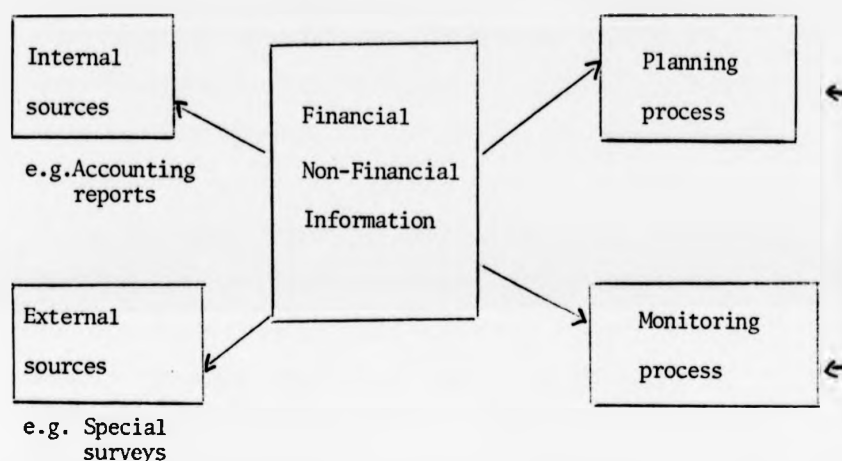
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In order to understand what is a corporate planning system, it is appropriate to review briefly its basic individual elements within a local authority framework.

6.4.2.1 Identification of the Problems and Needs of the Local Community

This is the starting point in which the authority collects and analyses the necessary data and information about the surrounding environment and its future trend, and accordingly the public needs and problems can be identified. Collecting and interpreting data is very essential for implementing an effective system of corporate planning. Information generally can be divided into financial and non-financial information. There are two main sources from which the authority may collect the needed information, internal sources and external sources. As figure 6.3 shows, internal sources refer to the internal financial reports and files, past-experience information, and all correspondence from the public concerning complaints or suggestions. Internal sources could play an important role in providing very valuable data and such data are not used to the full by local authorities (Stewart, 1975).

Figure 6.3

Information system in the local authority

External sources include special surveys carried out by the authority, the census, and information obtained from the media about community needs and problems. Perhaps the best way of obtaining information would be a special survey carried out by the authority to gather data on needs and problems of a particular service, e.g. housing. The high cost of carrying out such surveys is the main reason for their limited use. One practical solution is cooperation and coordination between local authorities to make available the results of conducted surveys to be used by the other authorities. This would reduce enormously the cost of obtaining information.

Perhaps it is appropriate at this point to stress the significance of the accounting system as a source of financial information. Accounting information is one of the main parts of the information system. Such information is required in two main processes, the planning process and monitoring process. Decision-makers need financial information as well as non-financial information to make rational decisions. The monitoring process is basically performed on the basis of the accounting reports and statements on actual performance. Therefore, in order to have an adequate information system, the authority must have a sound accounting system to produce accurate financial information. Surely, the inadequacy of existing government accounting systems has been one of the main factors in producing inadequate information systems in the public sector (Henley et al., 1983).

Although the availability of adequate and relevant information to assess the community's needs and problems is very essential to a local authority, adequate information on those needs and problems cannot be found in many cases (Stewart, 1975). The local authority needs to learn in order to respond quickly and correctly. As Stewart (1975) argues, "an organisation does not remain static in a changing environment. It learns, it adjusts, it changes. It has a learning style of management."

To cope with the changing environment, the local authority not only should identify present needs and problems, it also should be aware of the likely changes in those needs and problems

in future. This could only be achieved by adequate information. In this respect Skitt (1975) identified three main reasons for seeking accurate information on needs:

- "1. To show the current gap between provision and the desired level of service, so that priorities for more resources can be sensibly considered.
2. To forecast future needs both numerically and geographically and plan provision to meet it in good time.
3. To ensure operational policies are effective in reaching the real needs."

To be effective the local authority must be ready to respond to any environmental changes, and this requires more non-financial information to anticipate future changes. One must realise that not everything is or can be under the control of a local authority. This fact makes the management task more difficult to carry out. Nevertheless, an understanding of the surrounding environment is very essential to a local authority in order to carry on its activities.

The mere collection of data is not enough. What is important is the analysis and interpretation of such data. Every problem must be analysed in depth to discover its causes,

the factors affecting it, and the alternative solutions to solve it. The process of data analysis requires the use of statistical techniques, such as regression analysis, to forecast future trends (Skitt, 1975). Analysis in this stage starts with critical examination of existing activities to assess their effectiveness in meeting the needs of the community. As a result, cancellation of certain activities or proposals for new ventures could be considered.

Finally, one important point should be borne in mind, that is the problem of, as Ackoff (1967) called it, overabundance of irrelevant information. He explained this problem very clearly as he related his experience:

"My experience indicates that most managers receive much more data (if not information) than they can possibly absorb even if they spend all their time trying to do so. Hence they already suffer from an information overload. They must spend a great deal of time separating the relevant from the irrelevant and searching for the kernels in the relevant documents."

The need for relevant information in the private firm has been recognised a long time ago. In the public sector, such need is being widely recognised now as a result of introducing new approaches to the management of the public sector.

6.4.2.2 Setting the Overall Objectives, Policies and Priorities

Information obtained in stage one would be used as the basis for establishing the authority's objectives and policies. Normally, a central policy committee at the member level is responsible for formulating the overall objectives and policies in the light of the needs and problems of the local community. Financial resources, as well as manpower and land, likely to be available in both the short and long-term should be considered. At this stage, the council will have a clear view of what the authority is trying to do. Each activity should be justified by its contribution toward achieving certain objectives.

The clear definition of objectives would improve the quality of measurement. That is to say, the difficulty of measuring the impact of an activity would be less when the objectives of such activity could be identified clearly. Objectives are used as a reference in two processes. First in the planning process where activities and programmes are considered to accomplish these objectives. Secondly, in the monitoring process where actual performance is evaluated to see its contribution toward achieving those objectives.

Although there are some difficulties in defining objectives of a public organisation, objectives in local authorities could be defined in a meaningful way by obtaining

adequate information on needs and problems and on the surrounding environment as discussed previously. In setting objectives, it is important to answer the basic question: what are we trying to do? This would provide the base for setting policies and priorities. The need for establishing priorities among different claims is justified by the fact that resources are always limited in relation to wants. Thus, priorities would be defined more easily if information on public needs and problems is available and objectives of the authority are clearly identified.

6.4.2.3 Formulating Long-Term Plans

Planning starts with an analysis of the existing position. The identification of current activities, their use of resources, and their impact on public needs is the initial step. This is done in what is known as a position statement in local authorities. The purpose of a position statement is to present the various current activities of the authority to identify the contribution of these activities to achieve the authority's objectives, to specify the problems and deficiencies facing the authority which make the services less effective, and to identify gaps and duplication.

The position statement has been recognised by many authorities as an essential part of the planning activity. It makes the role of the elected member more effective by providing

the necessary information. As has been mentioned earlier in this section local authorities are becoming more and more aware of the importance of planning on a corporate basis to achieve effective and efficient resource allocation. The traditional organisational structure of local authorities as we have seen does not achieve effective planning. An attempt to overcome this weakness has been the establishment of a central policy committee in some local authorities to co-ordinate between committees and to ensure one integrated plan of action for the authority as a whole.

To cope with the environmental changes, the local authority not only identifies the present needs, problems, and objectives, but also it should be aware of the likely changes in those needs and problems in the future. This is not an easy task, mainly because of the problem of uncertainty. Indeed, uncertainty is a major problem facing the planner, it results from lack of knowledge (Stewart, 1975). The surrounding environment is changing and uncertainty remains because not all of the future trends and attitudes can be anticipated. It should be borne in mind that the existence of uncertainty should not lead to the decision not to plan. Rather, the planner should consider the factor of uncertainty and try to reduce such uncertainty by increasing knowledge and by making flexible plans to meet changing circumstances.

Resources are allocated among various programmes for a number of years ahead by considering two factors, firstly the

priorities which are developed in the light of the amount of resources likely to be available in the future. In addition, information on alternatives to achieve a certain objective should be available. Alternatives are analysed in terms of costs and benefits or effectiveness. It is relatively less difficult to determine costs, which include both capital and current, of the various programmes for several years ahead, although clearly the effect of inflation in recent years has made this particularly difficult. Benefits, however, are more difficult, if not impossible, to measure because of the nature of output produced by local authorities. Nevertheless, some authorities, e.g. GLC, Coventry and West Yorkshire, have been, to some extent, successful in developing effectiveness indicators to assess the contribution of an activity towards achieving a certain objective. At this point, it is better to explain the meaning of effectiveness by giving an empirical example.

If we assume that an authority is to install a system of street lighting as a part of a transportation programme to improve the safety of the road as well as reducing crime at night, then, it has to decide between various systems of lighting in terms of their costs and effectiveness. Costs are not too difficult to estimate. The effectiveness of each system is judged by its contribution toward the reduction in the crime rate after its installation. The final choice, thus, is made by considering both costs and effectiveness. The system which yields the largest ratio of effectiveness to costs is to be chosen. This simple example illustrates the difference between a traditional

system of resource allocation, which emphasises the financial control over resources without any consideration of the impact of such resources in achieving a particular objective, and an improved system.

6.4.2.4 Formulating the Annual Budget and Future Projections

Corporate planning is about resource allocation. To mention resource allocation is to mention the budget which is the annual detailed financial expression of the long-term plans together with projections for a few years ahead. The budget process is the basic means whereby resource allocation is considered, argued over, revised and finally agreed upon and formalised in the budget which eventually emerges (Livingstone, 1975). It is safe to say that the budget within a corporate planning framework is an integrated part of the overall policy and strategy of the authority. It is not a separate activity from long-term planning. Indeed, it is a significant part of the corporate planning system.

The field study survey has shown that 113 of the responding authorities (64%) are using the traditional budget format associated with an either integrated system of corporate planning or, at least, some elements of corporate planning. A total of 12 authorities have reported using the traditional budget format with some other management systems such as, PPBS, some elements of PPBS, ZBB or a modified system based on ZBB principles. Only 41 of the responding authorities (23%)

are still using only a pure traditional budget format.

As has been mentioned before, the traditional budget does not provide the adequate information which is necessary to the decision-maker. It aims only to achieve financial control over resources. Hence, it has a limited value for the policy-maker. According to Stewart (1975) the emphasis of the traditional budget has been upon expenditure. For financial control all that is necessary, it could be argued, is to set limits to expenditure. For planning it is not sufficient to know what an activity will cost, it is necessary to know what it will achieve. This information is not easy to obtain, or, when obtained, to fit into the framework of a routine annual budget. The traditional budget, however, places no emphasis on the need for much data or information.

It is safe to say that to benefit from a corporate planning system, a change in the traditional budget should be sought. The role of the budget in a corporate planning context is so important that traditional budgetary procedures would impede corporate planning. Skitt (1975) had suggested the need for a management control system which will relate expenditure to achievement. To obtain such a system, the budget must describe resources by :

- "1. relating programmes for their achievement to stated objectives;

2. expressing each programme (down to activity level) in terms of the resources expended upon them;
3. reporting on the comparison of actual performance with planned performance;
4. controlling, or accountability function of bringing into line, actual performance with planned performance". (Skitt, 1975).

It can be seen that these requirements would not be accomplished unless the traditional structure of budgeting is changed. The first step is to develop a programme structure where major programmes are intended to attain the authority's major objectives.

Finally, it is essential to stress the point that the use of the traditional budget is considered necessary to achieve the financial control (accountability) objective. Thus it is a common practice to find two types of budget in some local authorities: West Yorkshire, Bradford, Newcastle Upon Tyne are examples. The first type is the traditional form of budget to be used basically for control purposes, and the second type is a programme budget to be used for analysis and planning purposes.

6.4.2.5 Monitoring Process

While there are some writers (for example, Mitchinson, 1974), who do not consider the monitoring process as part of the corporate planning system, the majority do by emphasising the need for ensuring the achievement of the stated objectives at the right time and at the expected cost, and the need to use information generated in this process to modify existing plans and to formulate new ones. The continuous monitoring must feed into the continuing process "planning". Annual reports of progress in relation to the policy plan should make this possible (Stewart, 1975).

The Bains Report (1972) had laid a particular emphasis on the monitoring process. According to the report, monitoring and reviewing performance is an area of activity almost totally ignored in local government, yet one of the greatest importance. The report continued to say that "any management structure must make provision for securing value for money." In addition to the responsibility of the elected members toward ensuring an effective performance review, the report suggests the establishment of a "performance review sub-committee" as a watchdog body, something similar to the Public Accounts Committee in Parliament.

Generally speaking, the evaluation process is very important for the planners. By comparing the actual performance against the stated objective of an activity, an improved decision is expected. It is suggested that without some form of

evaluation, learning will not begin. Management will remain static in a changing situation (Stewart, 1975). Indeed, the monitoring process aims to ensure that programmes are being carried out effectively and efficiently in meeting the public needs.

Accounting has a great role to play in securing increased efficiency in resource allocation process through the measurement of actual performance to determine how efficient was the use of resources and to provide information to the planners. Any wrong basis for such information would give a wrong indication of the past performance and impair plans and decisions as a result of inaccurate data. But the limitations of the accounting system in local government results in additional difficulties in obtaining the relevant information. That is, accounting in local government should extend beyond a mere reporting of expenditure and revenue. There must be a broader responsibility of the accounting functions. This requires, in the first place, the establishment of a system of financial reporting. Such a need has been recognised by a number of authorities. The publication of official reports and the work of the Chartered Institute of Public Finance and Accountancy (CIPFA) are examples. The establishment of a management accounting structure in some authorities indicates the significance of the accounting techniques in securing better decision-making.

There is a serious problem in this respect facing the local authorities, the inflation problem. The inflation rate

has been high and it has caused a lot of difficulties in the planning of expenditure. Accordingly, it is important to distinguish between the real growth in expenditure and the growth due to the inflation. The high rate of inflation has led, further, to a wide dissatisfaction over the historical cost method of accounting, which fails to reflect the effect of inflation in the accounts. Thus, these accounts tend to be unrealistic. As a result, some other accounting methods have been suggested to overcome this problem. The current cost accounting method (CCA) has been proposed recently as the most appropriate method to replace the traditional historical cost in both private and public sectors.⁽¹⁾ It is worthwhile to mention that the Chartered Institute of Public Finance and Accountancy has recently conducted a research study of applying SSAP (No. 16) to the non-trading activities of the local authorities. This study concluded with a strong recommendation for the adoption of the CCA system (Woodham, 1981).

Finally, it is essential to stress the point that although a detailed discussion of the inflation problem is beyond the scope of this study, it is important to emphasise the significance of such an issue to the local authority which should consider and

(1) See Inflation Accounting, Report of the Inflation Accounting Committee, (Sandilands Report, London, 1975. The Exposure Draft No. 18 of the Accounting Standard Committee (Morpeth Report), and the Statement of Standard Accounting Practice (SSAP) No. 16: Current Cost Accounting, The Institute of Chartered Accountants in England and Wales, November 1976 and April 1980 respectively.

examine the value of the traditional historical cost method in producing the relevant and accurate information, needed by the policy-makers, in such situations as a high annual rate of inflation.

6.5 Summary and Conclusion

As has been explored before in Chapter 5, local authority management is in a difficult position these days; such a difficult situation has put the local authority under an increasing pressure to use its limited resources to obtain the maximum value for money. This, it has been suggested, could be achieved through the adoption of the corporate approach which enables the local authority to allocate resources through the identification of the needs and the problems of the community, to establish overall objectives, to set long-term plans, to formulate the annual budget and future projection on a programme basis, and to establish control procedures to provide an adequate and effective feedback.

These basic elements of a corporate planning system were discussed in some detail in order to explain the meaning and the aim of this system in improving the resource allocation decisions. The state of development of such systems in local government differs from one authority to another. But in general, more and more local authorities are becoming aware of the need for introducing new approaches and techniques to help the policy makers.

However, the efforts to improve the traditional budgetary approach in local authorities have experienced a variety of problems. Some of these problems are common to any public organisation but some are unique to the local authority. The latter type derive from the nature and structure of British local government. Problems in this respect can be classified into two main categories.

The first category relates to the political nature of the local authority. The existence of dualism in the power hierarchy of the local authority has produced a degree of conflict between members and officers. In addition, the establishment of an effective long-term planning process in the local authority is usually lacking because politicians are normally reluctant to commit themselves to long-term objectives which are very important for planning and monitoring the affairs of the authority. Another important reason is that because of the present economic climate, long-term planning is suggested to be out-dated almost as soon as the plan is prepared (much about this will be mentioned later in Chapter eight).

The second category is concerned with the financial structure of British local government. As the local authority becomes more and more dependent on central government grants, its autonomy becomes less and less. As a matter of fact, central grants during the last few years accounted for more than 50 per cent of local government revenue. Any cut in such a contribution would have harmful consequences as we have witnessed recently. To avoid

such problems, the local authority needs to raise its own revenue and should become rather fully independent in this respect. One positive solution suggested has been the establishment of a local income tax. This proposal, however, is strongly opposed by Whitehall.

This chapter and the previous one have depended heavily upon material collected through library research. They will be used as the basis for the next chapters which will be devoted to analysis of the budgetary techniques and financial control practices in English local authorities.

PART THREE

AN EMPIRICAL SURVEY OF THE STATE AND
DEVELOPMENTS OF THE BUDGETARY TECHNIQUES
AND RELATED MANAGEMENT SYSTEMS IN ENGLISH
LOCAL AUTHORITIES

CHAPTER 7

INTRODUCTION TO THE SURVEY

7.1 Introduction

From the previous discussion and literature survey one is able to realise the importance of developing more effective and efficient ways for resource allocation decisions and the ways to control the use of such resources in the vast majority of local authorities. This has resulted in an increasing interest among these authorities in the newer techniques for planning, budgeting and control. Indeed, the importance of these approaches can be easily recognised by examining the substantial literature on these systems in particular. (1)

It can be said that through most of the 1960s and 1970s there was continuous concern with the nature of local authorities' planning and budgeting systems, heavily influenced by American writing commending more rational planning systems, and from the implementation of PPBS in the USA federal government and some states and local governments (Norton and Wedgwood-Oppenheim, 1981).

It is safe to say that PPBS was rarely tried in a pure format, but from the Institute of Local Government Studies at Birmingham University, as well as from private sector business consultants, emerged the concept of corporate planning. The IMTA

(1) See chapter 3, 4 and 6 for detail.

actively promoted discussion of PPBS. Many members of Treasurer's Departments became involved in developing new types of management and budgeting systems. As has been mentioned in chapter 3 variations to PPBS were advocated particularly zero-base budgeting which, as has been suggested, is an approach more suitable to climate of restraint and cutback than any other budgeting system, as may be more relevant for the current economic situation than PPBS.

It seems to be there is little doubt that planning and budgeting in local government have evolved out of the relatively formalistic procedures and systems contained in PPBS to more flexible systems attuned to adverse economic circumstances, and indeed to the local characteristic of individual authorities (Henley et al., 1983).

The experience of British local authorities who developed PPBS, ZBB or the corporate planning concept suggested that an extended investigation of English local authorities recent developments in planning and budgeting techniques could be very useful. A survey by a questionnaire was chosen to carry out such investigation to test a certain set of hypotheses which derived from the previous chapters' discussion. (1)

The aim of this chapter is to introduce the questionnaire by discussing:

(1) Mentioned later in this chapter.

1. the objectives.
2. the design and structure.
3. the limitations.
4. statistical analysis.
5. the hypotheses of the study.

7.2 The Objectives

To study the attitude of English local authorities toward the state of their budgetary techniques and related management systems, as well as the recent developments in these techniques, and the need for improved systems of budgeting for better resource allocation, it was believed that access to the primary source of data was essential. Thus, a questionnaire was designed to obtain first-hand knowledge and information about:

1. The state of planning and budgeting practice in English local authorities.
2. The types of budgets and related management systems being used in English local authorities.
3. The types of changes, if any, in the traditional budgetary system.
4. Whether planning and budgeting techniques have been affected or not by newer developments in public budgeting such as PPBS, corporate planning and ZBB.
5. Their perception of the basic requirements for effective planning and budgeting systems.

6. The general attitude of English local authorities toward the newer planning and budgetary systems, i.e. PPBS, corporate planning and ZBB.
7. The types of users of budget information.
8. To obtain an insight view about the main functions of the annual and the medium-term budgets.
9. Their perception of the influence which is exerted by various groups in forming the final consideration and decisions on the budgets.
10. Their perception of the types of budgetary control at various times through the cycle of the local authority's affairs.
11. Their perception of the effect of the cash limit system on the planning and operation of budgetary system.
12. Their perception of the availability of adequate and relevant information and data outputs for an effective budgeting system.
13. Their perception of measurement of performance.
14. Whether there were any changes made or not in the accounting and auditing systems as a direct result of the introduction of newer developments in public budgeting.

It was assumed that the questionnaire would provide valuable information on what and how planning and budgeting systems were working. In this way it was felt that it afforded the opportunity to use a structured format to which all respondents'

authorities were exposed. It was hoped that such an opportunity would elucidate valuable information from these authorities about their experience and views regarding their use of techniques such as PPBS, corporate planning and ZBB as well as traditional budgeting.

7.3 The Design and Structure

In designing the questionnaire the primary goal was to make it as unambiguous as possible. So that before designing the final draft of the questionnaire, it was pre-tested during the pilot study, where eight authorities were chosen. A copy of the questionnaire was posted to each authority with a covering letter asking to allow the researcher to undertake a personal interview. Five authorities agreed to be approached, i.e. Coventry, Mole Valley, Oxford, Reading, and West Yorkshire. The aim was to check whether the questionnaire's contents were in accordance with the purpose of the research, whether conclusions could be drawn from the questions asked, to consider any suggestions and recommendations concerning the questions and, the most important of all, to find out the attitude and reactions of local authorities toward such investigation.

The response was very encouraging, although the pilot study identified a number of ambiguities; a few desirable simplifications as well as some other modifications. A glossary to describe and to define some terms and concepts involved was desired to be added

by the majority of the interviewees, and this was incorporated into the final version. The final questionnaire version for Treasurers, consisting of a set of instructions, a glossary, and a collection of 19 questions, appears in Appendix 7.1 together with the covering letter which was addressed to each authority contacted.

The questions were mainly of two types: the scale type of question and the open-ended type of question (Phillips, 1976). The scale type of questions are considered to be effective in getting the real and accurate opinions and attitudes of the respondents. However, this type of question suffers from the main disadvantage which results from the fact that the questions and answers do not always convey the same meaning to all persons. (Berdie and Anderson, 1974). In this study an effort has been made to overcome this weakness and to explain the meaning of some terms and concepts as mentioned above by incorporating the glossary.

The open-ended type question has been used to ensure that every detail which the research needs will be brought out (Beveridge, 1975). This type of question gives an opportunity to everyone to express his views in detail if he so wishes.

The questionnaire was posted in November 1981 to a population of 411 local authorities which represented all the local authorities in England. The names of these authorities are detailed in Appendix 7.2 with an indication of the responding

authorities, which indicated their willingness to appear in the list of participants to this enquiry. The reason for this selection was, because British local government is not homogenous. As has been said in Chapter 1, there are different systems of local government in England, Wales, Scotland and Northern Ireland. It is not possible to take full account of this variety because of different organisational structure, legislative framework and legal system. In Wales, for instance, parish councils, community councils are local authorities and an important part of the fabric of local democracy, but they are not major spenders (Henley et al., 1983).

Although two reminder letters, shown in Appendix 7.3, were circulated after sending the questionnaire (by 9 and 12 weeks) respectively, about 41 per cent of the authorities approached did not respond at all. Usable replies have, however, been received from 177 authorities, or 43 per cent, which must be considered a very good response. In this matter Bancroft and O'Sullivan (1981) pointed out that:

"Difficulty in obtaining a reasonable response rate is the most serious problem with questionnaires. In fact a response rate of 20% is quite good for a postal questionnaire."

The percentage of the usable replies varies, however, amongst the types of local authorities under consideration. This percentage has, for instance, been 50 per cent of the metropolitan counties, 56 per cent of the non-metropolitan

counties, 42 per cent of the non-metropolitan districts, 41 per cent of London authorities. Table 7.1 below illustrates the details of results of responses to the questionnaire where (N) refers to number of authorities in each relevant column.

Table 7.1

Breakdown of Response
by Type of Authority

Aspect Type of Authority	Authorities approached	Usable replies		Inability to participate		No Response	
		N	%	N	%	N	%
Metropolitan Counties	6	3	50	-	-	3	50
Non-metropolitan Counties	39	22	56	6	16	11	28
Metropolitan Districts	36	15	42	8	22	13	36
Non-metropolitan Districts	296	121	41	45	15	130	44
London Authorities	34	16	47	7	21	11	32
Grand Total	411	177	43	66	16	168	41

Correspondence received from 66 authorities indicated their inability to participate in this survey by completing the questionnaire, for the main reasons stated in table 7.2.

Table 7.2

Reasons for Not Completing
the Questionnaire

Aspect Reasons	Number of Authorities	%
Pressure of work and staff shortage	49	74
Too many questionnaires are being received	5	8
Reviews of the accounting and budgetary systems are in progress	2	3
Difficulties in answering the questions as set out in the questionnaire	2	3
No benefit would be obtained from answering the questionnaire as a result of the authority's situation	3	4
No reasons given	5	8
Total	66	100

From Table 7.2 it can be seen that pressure of work and staff shortage are the dominant reasons (74%) for the responding authorities who decided not to participate in the survey.

A shortened version of the questionnaire was used for Directors or Chief Officers of four service departments, i.e.

Police, Education, Housing, and Social Services. The aim was to undertake a cross check or validation of the views and attitudes of Treasurers or Directors of Finance in the responding authorities.

The departments were selected as a sample representing 50 per cent of the responding authorities who had completed the main questionnaire. They were selected according to a stratified random sample using the random tables. This type of sampling was chosen to ensure that all strata have an equal chance to be in the sample. Departments were divided into five basic stratum according to the type of authority, i.e. metropolitan, non-metropolitan for counties and districts, and London authorities. It must be borne in mind, however, that all these departments do not exist in each type of authority. For example, there is no police departments in districts because this service is undertaken by counties (see Chapter 5). Even the police departments do not exist in some non-metropolitan counties: Buckinghamshire, East Sussex, and Shropshire are examples. For police departments the sample contains only eight departments for the reason mentioned above. Table 7.3 below illustrates the breakdown of response to the shortened questionnaire. The questionnaire appears in Appendix 7.4 together with the covering letter and the reminder letter which was addressed later on to the heads of the above-mentioned departments.

Table 7.3

Breakdown of Response by Type and Name of Department

Department Name Type of Authority	DEPARTMENTS												TOTAL			
	POLICE				EDUCATION				HOUSING				SOCIAL SERVICES			
	Dept's Approached	Usable Replies	Inability to participate	No Response	Dept's Approached	Usable Replies	Inability to participate	No Response	Dept's Approached	Usable Replies	Inability to participate	No Response	Dept's Approached	Usable Replies	Inability to participate	No Response
Counties	8	3	4	1	12	7	2	3	-	-	-	-	12	4	2	6
Districts	-	-	-	-	10	6	2	2	71	37	11	23	10	2	1	7
London Authorities	-	-	-	-	7	1	5	1	11	5	1	5	10	4		6
Grand Total	8	3	4	1	29	14	9	6	82	42	12	28	32	10	3	19
													151	69	28	54

Usable Replies

46%

Inability to participate

19%

No Response

35%

Correspondence received from 28 departments indicated their inability to participate in this survey for the main reasons given in responses to the main questionnaire (see Table 7.2). The names of the departments under consideration are detailed in Appendix 7.5 with an indication of the responding departments. However, the information and data obtained from the above-mentioned questionnaire were not essential enough, as well as they would have interrupted the argument of the main text of the thesis if included as a separate chapter. Nevertheless, the breakdown of response is given in the questionnaire which appears in Appendix 7.4

There is one important point which must be emphasised concerning the design of the questionnaire. The respondents were not restricted to a single choice among the alternatives provided in the questions. Thus, respondents to most questions tended to select more than one alternative answer. This means that the total presented in most of the tables, in the coming chapters, is in fact greater than the number of individual responses.

7.4 The Questionnaire's Limitations

The decision to use a mainly multiple choice questionnaire was intended to achieve two objectives. Firstly, it was assumed that this type of questionnaire would be easier to answer without spending undue time, which it was hoped would result in a higher return. Secondly, this type of design tends to make the

task of organising and analysing the answers less difficult. Unfortunately, this was not the case for two of the responding authorities who objected to the style of the questionnaire and did not complete it for that reason. In their opinion, they could not adequately express their views and make their points clear in such a restricted structure.

There is some validity in their objection to the style of the questionnaire; for there is little doubt that the use of "open" questions would allow the respondents to express their ideas and views in greater depth. But this would introduce a greater problem. In design of the questionnaire the author considered the trade-off between complex structure which would require considerable time and effort to complete and yet would give very detailed information from the very few respondents who could find such time, with that represented by the other extreme, which was to design the structure in such a way that the questions could be quickly and easily answered. This it was expected, could produce a high response rate, although the quality of data would be lower. The aim of this questionnaire's design was to achieve an optimum between these two extremes. It should also be borne in mind that in each question an "other" category was provided to make it more flexible. Also, the respondent could write and comment in the space provided in the continuation sheet provided at the end of the questionnaire if he/she wished to do so.

The response rate would, no doubt, have been higher without the existence of these limitations. Nevertheless, the response was more than reasonable in that 177 authorities, or

43 per cent completed the main questionnaire. Further, valuable financial and budgetary information accompanied the answers of many respondents. For the shortened version, the response was quite good in that 69 service departments, or about 46 per cent, completed the questionnaire (see Table 7.3).

It is, however, recognised that there are some methodological limitations to this type of survey research. According to Sathe (1978) and Bennett (1981), criticism of survey research is made mainly on the ground that:

1. information generated would be subjective and probably biased by personal attitude and role idiosyncracies of the individual respondents,
2. interviewee bias may be reflected in responses to personal interviews,
3. people do not always speak frankly about their goals, particularly business goals, and that one is more likely to get answers about mores than about motives, and
4. the ways in which and the degree to which goals, perceptions and attitudes interact with one another and with the environment are difficult to measure.

An attempt was made, however, to minimise the shortcomings of survey research referred to above. Firstly, all questionnaires were addressed personally to the Treasurer or Director of Finance

when relevant; this was to reduce the possible effects of role priorities coming through in the responses. The shortened questionnaires were addressed to the heads of the service departments selected to achieve the same purpose. Secondly, all respondents were assured of complete confidentiality in the handling of replies. It is reasonable to expect that such an assurance of confidentiality would have encouraged a greater degree of frankness from the respondents than they would normally show in their more public utterances (Bennett, 1981).

Finally, the main conclusions drawn from the results of this survey were discussed in person with nine of the responding authorities who had indicated their willingness to be interviewed at a later stage (see instruction "F" in the questionnaire in Appendix 7.1). These authorities were as follows:

- One metropolitan county (West Yorkshire)
- Two non-metropolitan counties (Humberside and Gloucestershire).
- Two metropolitan districts (Birmingham and Dudley).
- Three non-metropolitan districts (East Staffordshire, Redditch and Stratford-on-Avon).
- One London borough (Enfield).

The aim was to validate how far the conclusions based on the statistical results carry realism and conviction with practitioners. This was carried out through a series of meetings based on a

letter sent to each authority contacted. Enclosed with the letter was a set of 23 main conclusions generated after the analysis of replies to the questionnaire. The letter and the set of main conclusions appear in Appendix 7.6.

As a matter of fact the interviewees were very happy with the mentioned conclusions and as far as can be ascertained they have agreed strongly with them. Of course, every interviewee was trying to relate the conclusions to his own authority. For some conclusions which did not conform with the real situation in the authority under consideration, the size of the authority, shortage of skilled staff and resource constraints were the main reasons given in explanation.

7.5 Statistical Analysis

A computer package, Statistical Package for Social Sciences (SPSS), was used to store and manipulate the data generated by the questionnaire, and it proved invaluable in analysing the results. The data was analysed using the chi-square test (χ^2). This statistical technique was used to test the two hypotheses:

H_1 : null hypothesis, no association between two variables

H_2 : an association between two variables.

The chi-square test enables us to interrelate nominal scales with any number of categories, and since we have several categories

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H_1 : null hypothesis, no association between two variables

H_2 : an association between two variables.

The chi-square test enables us to interrelate nominal scales with any number of categories, and since we have several categories

in our population, i.e. counties, districts, and London authorities, so it has seemed most to be suitable in our analysis.

As regards significance on statistical tests, it is customary in the social sciences to regard as significant, results at a level of confidence of 5 per cent or better (Blalock and Hubert, 1960), although the validity of this rule has been questioned in recent writings. In what follows, the convention has been adopted of reporting confidence levels of 25 per cent or better, and treating as supportive of firm conclusions only levels of confidence of 5 per cent or better (Morrison and Henkel, 1970; Bennett, 1981). Finally, an average scale score was used for the order of ranking of some variables included in the questionnaire.

7.6 The Hypotheses of the Study

British local government has been under study and investigation for several years to highlight its weaknesses and shortcomings in the hope of finding improved ways of using its scarce resources. As a matter of fact resources available to local authorities are always insufficient to fully carry out all their activities and to fulfill local community needs and expectations. In addition to that, local authorities have been under increased pressure from central government to contain their expenditure in accordance with national economic policies.

Thus, the local authority has to choose between two different alternatives, that is either to cut its standard of services to the public, or to increase the rates. As a result, local authorities have been trying to improve the quality of their decisions in resource allocation, to obtain better value for money.

The hypotheses listed below are to be investigated in following chapters (concerning only English local authorities, for the reasons mentioned before in section 7.3):

1. That the traditional budgeting procedures in English local authorities have many deficiencies and shortcomings which hinder the effectiveness and efficiency of the resource allocation process.

2. That the newer budgetary developments, e.g. PPBS, corporate planning and ZBB, could be successful in overcoming the serious shortcomings of the traditional techniques, mainly through integrating planning with budgeting in a meaningful way (which includes the consideration of the implication of present decisions on the future).

3. That the traditional budgeting in many English local authorities has been affected, in one way or another, by the newer developments -- in particular corporate planning. Also, that the introduction of organisational changes during the 1970s, including the reorganisation in 1974, had a significant effect on the planning and budgeting processes.

4. That the full operation of an integrated system of PPBS and a corporate approach, would involve many difficulties

and problems which would prevent the vast majority of English local authorities from developing a complete and successful PPBS and corporate planning system. Thus, it was expected that only a few authorities would develop an integrated system of PPBS or corporate planning, and that the majority of the authorities would prefer to adopt only some elements of them.

5. That English local authorities would tend to prefer a corporate planning approach over a PPBS. The principal reason for this was the fact that a PPBS would be very difficult to implement and would require special skills. In addition, local authorities could doubt its value as compared with the resources and efforts required to implement it.

6. That the value of adopting ZBB techniques, or a modified budgeting system based on ZBB principles, stems from the belief in ZBB as an approach more suitable to a climate of restraint and cutback than any other budgeting system, as may be relevant for the current economic situation.

7. That the application of a new budgetary system could vary from one authority to another depending on a number of factors, among them being the size of the authority, availability of skilled staff, degree of the authority's commitment toward such systems, and influences from the surrounding environment.

8. That the political factors would have a major role to play concerning the need to improve the process of resource allocation. Thus, the importance of the support of the elected members for any proposed budgetary changes. In addition, the support of officers is equally important and must be sought. Another important factor in deciding whether to introduce a new

budgetary technique is the size of the authority. It was expected that the scale economies would preclude the majority of English small authorities from major budgetary changes.

9. That the development and implementation of the new budgetary techniques would require careful and sufficient preparation to ensure its effectiveness, an adequate and up-to-date information system and skilled staff being among the basic requirements. Moreover, before introducing the proposed budgetary techniques, certain changes in the organisational structure and in the accounting and auditing procedures would be required to cope with the new budgetary changes.

10. That for any budgetary development to be effective, long-term planning for capital expenditure must be adopted. It was expected that there could be a relationship between the planning horizon and the budgetary technique implemented.

11. That the process of measuring actual results against estimates derived from long-term plans prepared in previous years for the purposes of improving and formulating long-term plans, in addition to its financial control purposes, is considered as an essential part of an effective budgetary process.

12. That the process of budgetary control during the preparation of budgets (exerted by the acceptance of overall resource constraints) and control during outturn, which is done in order to monitor actual activity against the planned position, are a very essential part of the budgetary process.

13. That the cash limits system has a considerable influence on the planning and operation of the budgetary system.

14. That the existence of accurate and relevant information and data sources are very essential as requirements for developing and implementing a corporate planning system, and for the operation of a sound budgetary system.

15. That the majority of English local authorities have introduced either major or minor changes in their planning and budgeting procedures within the last decade.

The above hypotheses are examined in the following chapters in the light of the questionnaire findings.

CHAPTER 8

ANALYSIS OF THE QUESTIONNAIRE :

PART ONE

For the purpose of the analysis of the main questionnaire to Treasurers or Directors of Finance, it was felt that it would be necessary to divide the analysis into two parts. Part One, to which this chapter is devoted, will discuss the findings of the replies to the first seven questions. Since they dealt with introductory matters and the general attitude of English local authorities toward the newer developments in financial planning, budgeting and financial control procedures, the answers to these first seven questions are discussed under the following main headings:

1. Types of budgets and related management systems in use.
2. The effect of authorities' size and type.
3. Programme budgeting versus corporate planning and zero-base budgeting.
4. Local governments' organisational changes during the 1970s.
5. Forward planning.
6. The Monitoring process, and
7. The effectiveness of programme budgeting, corporate planning, and zero-base budgeting.

8.1 Types of Budgets and Related Management Systems in Use.

English local authorities are becoming more and more aware of the limitations of the traditional budgeting procedures, which were discussed in Chapter 3, as an effective means for resource allocation decisions. The survey has shown that 166 of the responding authorities, or 94 per cent, are using the traditional budget format. A total of 113 authorities (68%) out of this number are using the traditional budget format associated with either an integrated system of corporate planning or at least some elements of corporate planning. A total of 12 authorities (7%) have reported using the traditional budget format with some other management systems such as PPBS, some elements of PPBS, ZBB or a modified system based on ZBB principles (see the glossary in the questionnaire for definitions in Appendix 7.1). Only 41 of the responding authorities (25%) are still using only a purely traditional budget format.

It is apparent that there is no one unique system of budgeting which can meet the needs of all local authorities. Each authority must choose the procedures which fit its own specific needs, environment and circumstances.

Table 8.1 below shows the types of budgets and related management systems that are being used by the responding authorities.

Table 8.1

What types of budgets and related management systems do the authorities use? (Q1).

Types of budgets and related management systems	Frequency of response	%
Traditional budgeting system	166	44.5
An integrated system of corporate planning	22	5.9
Some elements of corporate planning	98	26.3
An integrated system of programme budgeting (PPBS)	4	1.0
Some elements of programme budgeting (PPBS)	28	7.5
Zero-base budgeting system	5	1.3
Modified system based on zero-based principles	31	8.4
Other	19	5.1
Total	373	100
Total responding authorities ... 177		

From Table 8.1 it can be seen that 22 authorities have developed a complete system of corporate planning, only four authorities have developed an integrated system of PPBS, and only five authorities have adopted the ZBB approach.

Table 8.1 further shows that 19 authorities have developed new budgetary procedures other than those mentioned in the questionnaire, as indicated to me in written answers to the other category in question one (see the questionnaire in Appendix 7.1). These procedures include cash limits budget, inflation budget, manpower budget, a programme structure budget, formal officers group structure, performance review of functions and services, crystal ball, and arbitrary decisions by elected members with the majority of votes.

It is apparent from the table also, that the formulation of the annual budget on the basis of the long-term plan has been reported by the majority of responding authorities, considering that 98 authorities have adopted some elements of corporate planning and 28 authorities have reported using some elements of PPBS. This component is one of the main features of corporate planning or a PPB system.

It is interesting to note that a number of the responding authorities have mentioned that they have adopted some elements of corporate planning or PPBS and in some cases, ZBB principles, without using any specific title. As one respondent put it:

"Taking question one of the questionnaire as a basis on which to express our sentiments in this matter, I would suggest that we, in common with most, if not all local authorities, have been practising four or five heads

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"Taking question one of the questionnaire as a basis on which to express our sentiments in this matter, I would suggest that we, in common with most, if not all local authorities, have been practising four or five heads

mentioned for many years without ascribing a specific title to such practice. The allocation of resources for several years to come is an aspect which has been brought in use by a number of authorities during the immediate past, and is a target we would hope to achieve ourselves as a matter of course, without regarding this exercise as specifically related to PPBS or corporate planning."

Also, the following comment has been mentioned by another respondent concerned with PPBS and corporate planning, during the author's visits to some of the responding authorities to discuss the conclusions of the research (see Chapter 7):

"We regard them (PPBS and corporate planning) as merely polarising and publicising practices which have been adopted to a greater or lesser degree for many years."

These two comments probably illustrate the reactions of many other English local authorities toward PPBS and corporate planning. It seems true that some elements of these systems have been practised by English local authorities for some time and there is in this sense nothing new about the individual components of PPBS or corporate planning. But what is new is the attempt to compile such elements under one integrated system

with specific procedures and stages to follow, and with assigned responsibilities. Such a system might be called PPBS, corporate planning, or some other name. The title is not important. What is important, however, is the realisation by English local authorities that traditional budgetary procedures are no longer suitable for the increasing complexity of local government activities and its responsibility toward meeting the needs of the community.

Again for the purpose of the analysis of the questionnaire the budgetary and related management techniques are classified into two main categories, simple techniques and sophisticated techniques. Traditional budgeting, some elements of corporate planning, some elements of PPBS, zero-base budgeting, modified system based on zero-based principles and other similar systems are combined to indicate simple systems. Integrated systems of PPBS and corporate planning are combined to indicate sophisticated systems. Thus, Table 8.2 is presented according to this new classification.

Table 8.2

Types of budgets and related management
systems as simple and sophisticated systems

Types of budgets and related management systems	Frequency of Response	%
Simple systems	347	93
Sophisticated systems	26	7
Total	373	100

From the above table it can be seen that the vast majority of the responding authorities have adopted simple systems to assist in improving their budgetary process. This, no doubt, reveals the fact that a PPB system is still too difficult to be considered by the majority of English local authorities. Almost all authorities agree on the conclusion that PPBS is too complicated and that a less sophisticated approach, such as corporate planning, has a better chance of success in improving the budgetary process. As Table 8.1 indicated, it seems that the majority have preferred to try elements of the mentioned systems instead of taking the risk of implementing a complete system. The risks here refer to the fact that a complete system of those approaches particularly PPBS, would be too costly in terms of resources and time consumption, to introduce and implement given the uncertainty of future success; for instance, the introduction of PPBS to the GLC had cost them £2m (Egarr, 1982).

Finally, the local authorities were asked to indicate how important each of the listed management systems as an essential technique in assisting financial management in an authority was (see Table 8.1). It is interesting to note that the vast majority of the responding authorities (83%) have indicated traditional budgeting systems as very important. Some elements of corporate planning have come in second place, with only 34% indicating them as a very important approach; 36 per cent as quite important, and 25 per cent reporting them as of only some importance. An integrated system of corporate planning approach has come in third place with 30 per cent indicating it as a very important; 19 per cent quite important, and 19 per cent of some importance. (For details see Appendix 8.1).

These findings reflect the fact that the traditional budgeting procedures are the basic way whereby resource allocation is considered, argued over, revised and finally agreed upon. It seems true that English local authorities have considered the traditional budgeting procedures as essential for the financial control (accountability) objective. Meanwhile the traditional budget within either an integrated system of corporate planning or a system with at least some elements of a corporate planning framework is considered as an integrated part of the overall policy and strategy formulation process of the authority. It is not, as mentioned before, a separate activity. Indeed, it is a significant part of the corporate planning approach.

8.2 The Effect of Authorities' Size and Type

Generally speaking, it is probably safe to say that larger authorities are more likely to be capable of developing and introducing new ideas and techniques for their managerial control than smaller authorities, mainly because they have advantages in terms of resources, both human and financial.

Table 8.3 is provided to substantiate the validity of this statement. It classifies the responding authorities into two categories, according to their population; small authorities; and medium and large authorities. The small authorities are those with a population of less than 100,000, and the medium and

large authorities are those with a population of more than 100,000. These two categories are related to the type of budgets and related management systems to see if there is a relationship between the size of an authority and the type of system in use. To apply the chi square test, an attempt has been made to classify both categories of authorities into authorities which use simple systems and authorities which use sophisticated systems. The first category is considered to be the authorities which use any simple system as was indicated in the previous subsection. As for the second category, any authority which uses either an integrated system of corporate planning and/or an integrated system of PPB would be considered to be using a sophisticated system.

Table 8.3

Types of budgets and related management
systems in relation to the size of
authorities

Authority's Size Type of management system	Small		Medium and large		Total	
	No.	%	No.	%	No.	%
Simple systems	61	83.6	92	88.5	153	86.4
Sophisticated systems	12	16.4	12	11.5	24	13.6
Total	73	41.2	104	58.8	177	100

The raw data of the above table illustrates that there is no relationship between the size of the authorities and the type

of system in use. In addition to that, the value of the chi square test obtained from the table was 0.48 with one degree of freedom. This value is below that sought for statistical significance at the 5 per cent level. One has, therefore, no ground for rejecting the hypothesis of independence between the size of the authorities and the type of system in use. Apparently there is no relation between these two variables.

As for testing the relationship between the type of authority and the type of budgets and related management systems in use, i.e. simple and sophisticated systems, Table 8.4 is provided to illustrate this relationship.

Table 8.4-

Type of budgets and related management
systems in relation to the type of
authority

Type of authority Type of management systems	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Simple	22	88.0	118	86.8	13	81.3	153	86.4
Sophisticated	3	12.0	18	13.2	3	18.7	24	13.6
Total	25	14.1	136	76.8	16	9.1	177	100

From the above table it can be seen that the vast majority of county councils and London authorities (22 and 13) respectively have

adopted simple systems bearing in mind that they might have the resources needed, both human and financial, to implement such sophisticated systems. Again this confirms the previous conclusion that the size of the authority has nothing to do with the type of systems in use. The value of the chi square test obtained from Table 8.4 was 0.81 with 2 degrees of freedom. This value is very small for statistical significance at the 5 per cent level. In this case one has to accept the null hypothesis of independence between the type of the authority and the type of budgets and related management systems which the responding authorities are using. It seems that there is no association between these two variables.

8.3 Programme Budgeting Versus Corporate Planning and Zero-base Budgeting.

The attitude of the local authorities toward PPBS and the corporate planning approach, as well as zero-base budgeting can be easily identified by the answers to more than one question. In general, it is safe to say that a high percentage of respondents have their doubts about the working of PPBS in practice. As one of them put it:

"I do feel that whilst programme budgeting may be ideal as a theoretical exercise, it would not work on the ground..... Furthermore, its introduction would be very costly in staff time".

This feeling reflects the current views of local authorities who favour an integrated system of corporate planning or at least some elements of it, and/or a zero-base budgeting system or at least a modified system based on zero-based principles over PPBS, or at least some elements of it (see Table 8.1).

The preference of the corporate planning approach and/or ZBB over PPBS can, further, be found in the answer to question (3.3) which was directed mainly to authorities who have not been affected by the newer developments in public budgeting. Twenty-eight of those authorities have indicated their intention to introduce developments and changes to their budgetary system, while 98 authorities have no such intention. Twenty-four out of the 28 responding authorities (86%) preferred the corporate planning system, whereas only four authorities named PPBS as their choice for future developments. As for ZBB, 16 authorities out of the 28 responding authorities have indicated their intention to implement this system simultaneously within the corporate planning frame (see Table 8.5).

From these two points, it is obvious that PPBS is no longer under serious consideration by the majority of English local authorities, while corporate planning as well as zero-base budgeting on the other hand do seem to attract many of them.

Table 8.5

If your budgeting system and related management systems have not been affected by newer developments of public budgeting, do you intend to introduce any developments in the future? (Q3.4)

Type of budgeting systems	Frequency of Response	%
Corporate planning	24	52.2
Programme budgeting (PPBS)	4	8.7
Zero-base budgeting	16	34.8
Other	2	4.3
Total	46	100.0
Total responding authorities ... 28		

The respondents were also requested to rank in order of importance each system which their authorities may introduce in the future. Of the four authorities who have reported their intention to develop PPBS, two authorities have indicated this system as quite important, and the other two of some importance. As for the 24 authorities who have chosen the corporate planning approach; 13 authorities have ranked this system as very important (54%); five authorities indicated it as quite important, and the other six authorities indicated it as of only some importance.

Finally, of the 16 authorities who have indicated their intention to introduce ZBB system; five authorities ticked very important; eight authorities quite important and the rest have indicated the system as of some importance, (see Appendix 8.2 for details).

Question 3.1 aims to establish the effect of the newer budgetary developments, PPBS, corporate planning and ZBB on the budgeting procedures and related management systems of the local authorities. Only 47 of the responding authorities (27%) have indicated that their budgetary systems have been affected by these developments and 130 authorities (73%) have reported that their systems have not been affected. The reasons for this negative response from the majority of the respondents are varied and are presented below in Table 8.6. To present this table an average scale score technique was used, where a weight of 4 has been given to reasons which are 'very relevant', a weight of 3, to 'quite relevant', a weight of 2 to 'of some relevance', a weight of 1 to 'of little relevance', and a weight of zero to 'of no relevance'.

The above table indicates clearly that the shortage of staff who could be devoted to such schemes is a major consideration of authorities not developing PPBS or corporate planning. Undoubtedly, the introduction and implementation of these systems does seem to require special skills. Unfortunately, many local authorities lack such skills and therefore cannot engage in a sophisticated system of budgeting such as PPBS. Another main factor was that some authorities do not believe in the value of

these systems. Again, this is an indication of how some people in local government still doubt the positive contribution of these approaches toward improved allocation decisions. Still, as the table shows, there were the respondents who thought that these systems were too difficult to be implemented. Another group of authorities based their views on the disappointing results of other organisations in implementing these systems. Although this response is relatively small in its average scale scores (1.91), no doubt it indicates that some of the local authorities are aware of current budgetary developments. Moreover, there was another factor, that is, a number of authorities were too small to adopt such systems. This is somehow a factor in deciding whether to engage in such developments because corporate planning as well, as ZBB or PPBS require a large amount of resources, financial and manpower. Small authorities at least cannot afford such large resources.

Finally, there were 20 authorities who gave other reasons. Ten of them have considered the lack of elected members' enthusiasm to see such changes as a very important reason. Other reasons include; the attitude of non-financial managers; a lack of certainty with regard to the future availability of resources inhibits the effective use of new systems - this results substantially from a lack of forward information being provided by central government on local government targets and allocation; the concentration on short-term measures affecting annual budgets; the need to evaluate the effect of political decisions on the successful operation of the techniques; and finally, and surprisingly, the one authority which stated its reason for not

Table 8.6

The reasons mentioned by the respondents to explain their negative response toward the newer budgetary developments (Q3.2)

Aspect Reasons mentioned	Average scale score *	N **
A. Shortage of staff in our organisation to adopt such systems	2.89	119
B. The benefit from these systems does not justify the effort and cost of developing such systems	2.78	118
C. These systems are too difficult to be implemented, and there are doubts about their operation in practice	2.23	117
D. The results from the application of these systems in other organisations are not encouraging	1.91	111
E. Our organisation is too small to adopt such systems	1.84	114
F. Other	-	20

* An average scale score of 2 means that the reason is "of some relevance".

Of no relevance is 0. Of little relevance is 1.

Quite relevant is 3. Very relevant is 4.

** N refers to the number of the responding authorities.

considering such developments as being that "traditional budgeting has proved adequate until now". This again demonstrates how these newer approaches are still in the balance, and unless clear and strong evidence of their effectiveness is provided, many authorities will continue to doubt their value. As for the distribution of how relevant are the reasons mentioned by the respondents to explain their negative response toward the newer budgetary developments, see Appendix 8.3.

8.4 Local Government's Organisational Changes During the 1970s.

As mentioned in Chapter 5, following the publications of the Royal Commission on local government in 1969, and the Maud Report on management in local government in 1967, a number of local authorities introduced some organisational changes in order to make the authority more efficient in managing its affairs. A major reorganisation of local government had occurred in 1974 in England and Wales, and in May 1975 in Scotland. The aim was to seek a modern system of local government in order to cope with the increased complexity of services; that is, to provide more efficient and economic units of government which would be more capable of fulfilling the needs of the public concerned.

These reports and events undoubtedly had a great impact on the attitude of local authorities toward the traditional management structure and process, which had been in existence

since the start of this century. Matters have changed as have people's needs and problems. Until the start of the last decade, the response of local authorities had been negative or very slow, as stated in Chapter 5. To be effective, a local authority needs to be in a dynamic state, that is to learn to react as quickly as possible to any changes in the environment and/or circumstances. By such a dynamic approach, it should accomplish its objectives more effectively. The last decade, as has been argued in Chapters 5 and 6, witnessed tremendous developments in the manner in which local authorities carry out their activities. To achieve greater efficiency and effectiveness in the services provided has become the common aim of every local authority.

Returning to the survey, it has been found that 119 authorities, or 68 per cent of the respondents,⁽¹⁾ have indicated that the organisational and managerial changes in local government during the 1970s, including the changes of the 1974 re-organisation, led to changes in their budgetary systems and related management systems. Table 8.7 is provided to illustrate the distribution of these authorities according to their type.

(1) The total number of the responding authorities to this question was only 175.

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(1) The total number of the responding authorities to this question was only 175.

Table 8.7

Did the organisational and managerial changes in local government during the 1970s (including the changes of the 1974 re-organisation) lead to changes in the budgetary systems and the management system in your authority? (Q.2.1)

Type of authorities	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	16	64.0	94	69.6	9	60.0	119	68.0
No	9	36.0	41	30.4	6	40.0	56	32.0
Total	25	14.3	135	77.1	15	8.6	175	100

The chi square value for the above table was 0.79 with 2 degrees of freedom, which is not statistically significant at the 5 per cent level. Therefore, the null hypothesis cannot be rejected. It seems that there is no apparent significant difference between the distribution of responses according to the type of authorities.

Table 8.8 below shows how the responding authorities have been affected by the organisational and managerial changes in local government during the 1970s.

Table 8.8

How did the introduction of organisational changes in local government during the 1970s affect the budgetary system in your authority? (Q 2.2)

Type of changes in budgetary systems	Frequency of Response	%
By introducing a new budgeting system and other financial systems	96	31.6
By giving more consideration to the needs of the community, and to the organisations' objectives (e.g. adopting a more effective means of utilising the organisations' resources)	70	23.0
By emphasising the necessity of linking planning with budgeting	68	22.4
By looking in great depth at the future implications of present decisions, through long-term planning	59	19.4
Other	11	3.6
Total	304	100.0
Total responding authorities ... 119		

One obvious effect was the introduction of a new budgeting system, as the table shows, where 32 per cent of the responding authorities indicated this effect. It should be borne in mind, however, that a large number of authorities were newly established in 1974. Seventy respondent authorities have indicated that they

made some changes by giving more consideration to the needs of the community, and to the organisation's objectives (e.g. adopting more effective means of utilising the organisation's resources). One can argue that such recognition has been adequately considered before the appearance of the newer developments in local government. But according to the findings of some people engaged in research on management in local government, the weakness of local government has always been attributed to the fact that local authorities have not been adequately responding to the growing and changing needs of the community. Evidence of such weakness can be found in the writing of Professor Stewart and many others as mentioned in Chapter 5. In addition, the table shows that there had been a need for local authorities to consider the future implications of the present decisions through long-term planning on the one hand together with the need to link planning to budgeting to make such decisions more effective. Such findings support the generally accepted view that linking long-term planning with budgeting has been increasingly recognised by a large number of respondents.

Other effects mentioned by some of the responding authorities include; emphasising the need for greater involvement in the budgetary process by members, getting spending departments more involved and aware of the financial consequences of their actions, and better in-depth pre-commitment project appraisals.

Respondents were asked to rank in order of importance, how important they considered the mentioned changes were to their authorities: the distribution of responses is shown in Appendix 8.4.

8.5 Forward Planning

It is surprising to note that a large majority of the responding authorities, 143 authorities or 81 per cent of the total, do not have a unit concerned with forward planning. Only 34 authorities or 19 per cent do have such a unit. This finding shows that the attitude of English local authorities is in keeping with the traditional practice which means two types of budget, capital and revenue. One of the main features of a PPB system, however, is the combination of these two budgets into one programme for not less than five years.

As for testing the null hypothesis that the existence of a forward planning unit independent in relation to the type of authority, Table 8.9 below is included to illustrate this relationship.

The chi square value for the afore-mentioned table was 21.74 with 2 degrees of freedom, which is significant at 0.001 level. Therefore, the evidence does justify the rejection of the null hypothesis. This means that there was a strong relationship between having a separate forward planning unit and the type of authorities.

Table 8.9

Do you have a separate forward planning unit in your authority? (Q. 4.1)

Aspect Type of Authorities	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	5	20.0	19	14.0	10	62.5	34	19.2
No	20	80.0	117	86.0	6	37.5	143	80.8
Total	25	14.1	136	76.8	16	9.1	177	100

In respect of the responding authorities which have stated that they do not have a separate forward planning unit, their answers to the question as to where such duties are carried out were diverse. The majority of these authorities indicated that forward planning duties are carried out through a management team of Chief Officers and this again reflects the fact that a corporatate management approach as a reality in some local authorities is much more established. Other authorities have indicated that such duties are carried out through service departments in conjunction with the Treasurer's or Finance Department. For some respondents forward planning duties are carried out through an ad hoc working group and for others, such duties are carried out through a multi-disciplinary working party

of officers in liaison with the Treasurer's department and the budgetary and accounting sections. Finally, for some authorities these duties are carried out through a policy and resources committee.

This diverse attitude amongst the responding authorities towards performing forward planning duties reflects another fact, that is, probably no two authorities have exactly the same internal organisation and structure. But, we can emphasise here the fact that, in practice, there is considerable similarity in terms of the general principles of organisation and structure, which tend to group around a few broad types (Henley et al., 1983).

The length of period over which the responding authorities engage in long-term planning for capital expenditure varies from one authority to another as Table 8.10 shows:

Table 8.10

Long-term planning horizon for capital expenditure. (Q.4.3).

Planning horizon	Frequency of Response	%
2 years to 4 years	131	68.2
5 years	47	24.5
6 years to 9 years	5	2.6
10 years	1	0.5
Other	5	2.6
None	3	1.6
Total	192	100.0
Total responding authorities ... 169		

It is clear from the above table that the majority of the responding authorities (68%) are using the period of two years to four years as their capital expenditure planning horizon. Only 47 authorities (25%) are using the period of five years as their capital expenditure planning horizon. It is surprising to find that three authorities did not perform any long-term planning for their capital expenditure. Still, as the table shows, only five authorities (3%) are using the period of six years to nine years for their long-term planning horizon of capital expenditure. Five authorities have stated other aspects related to their long-term planning for capital expenditure such as, one year or current year, some informal long-term planning takes place, i.e. local plans and structure planning. Thus, it seems hard to avoid the conclusion that the majority of respondents are not carrying out significant forward planning.

This observation was rather unexpected and did not give support for hypothesis no. 10 (Chapter 7), as was strongly anticipated from the relevant literature as indicated in Chapters 3 and 5. Ideally, one would have expected English local authorities to adopt a long-term planning horizon for their capital programmes. As discussed in Chapters 3 and 6, a pre-requisite for an effective budgetary system is the introduction of long-term planning: without such strategy, the improvement associated with new changes will, most probably, be greatly restricted.

Perhaps, in the present economic climate of restraint and cutback the long-term planning for capital expenditure is out-dated

because of uncertainty over the level of capital spending which is being decided by central government. As one of the respondents put it:

"Government planning (central government) is relatively short-term and long-term possibilities are subject to change due to uncertainties about the economy as a whole".

Another respondent explained his authority's attitude by saying:

"Our authority is working under increasing uncertainty about Government targets, grants capital allocations etc. The rules change regularly and with crushing effects on any long-term strategy".

The same view was expressed in this extract from another respondent:

"..... Because the current and foreseeable future economic climate is likely to be somewhat volatile, no firm long-term plans are envisaged."

Finally, another view was expressed in the following comment in the same direction:

"Forward planning for both capital and revenue was originally over a period of 5 years.

It is now over 2 years for revenue and 5 years for capital. The past few years of constraints on local government expenditure has led the elected members to take a shorter term view of the authority's planning with greater emphasis being placed on the next year's precept forecast and less on longer term plans. Mid-year intervention, to counter changes in Government grants, etc., is becoming increasingly important, disturbing even the plans for the current budget year. Long-term planning appears increasingly a luxury of the past."

It is interesting to note that the above comments conform with the findings of the PA Management Consultants (1979) in their report on Cheshire County Council concerned with long-term planning in this authority when they mentioned that:

"The preparation of the 5 year plan and the annual budget is a time consuming and expensive exercise. Because of the present economic climate the 5 year plan is out-dated almost as soon as it is prepared. Whilst it is very useful to know what expenditure is likely to be a few years ahead, broad estimates are probably as useful and as accurate as the detailed build-up now produced by some departments."

The current economic situation suggests that local authorities are required to give priority to a total re-appraisal of their financial planning techniques. The aim should be to introduce a technique or method of planning which:

- a. takes account of the economic uncertainties,
- b. provides elected members with the mechanisms for assessing the financial effect of policy options,
- c. ensures a continuing review of existing expenditure policies,
- d. pays the same attention to sources of income as to channels of expenditure,
- e. minimises the need for short-term expedients which simply reverse previous policy decisions.

It is clearly necessary that limited expenditure plans are formulated in a way which reflects the best information that can be had as to the likely availability of financial resources, particularly those within the ambit of central government control through the capital allocation system, using the best information available from public expenditure white papers, etc. Nevertheless, major changes in expenditure levels as a result of economic circumstances have to be accepted as inevitable in times of economic stress. It is interesting to note that central government thinking has moved progressively toward reducing control on individual projects within "key sectors", thus increasing the ability of local authorities to decide their own priorities for individual services and projects within global allocations of permitted spending (Henley et al., 1983).

The trend towards greater local discretion whilst maintaining overall control for the purposes of economic management by central government, re-emphasises the need for properly structured capital programming by local authorities. The critical factor, however, remains that programmes for three or five years ahead will still need to be prepared without a clear indication of likely resources as long as the present system of annual allocation continues. In these circumstances it is necessary for capital planning to indicate well in advance the likely level of commitments for any given year, and the degree of flexibility in the plans, so that adjustments can be made in sufficient time to take account of altered levels of resources.

Appendix 8.5 demonstrates the views of respondents about how relevant they considered each period given in Table 8.10 to be, when setting long-term plans for capital expenditure.

As for long-term planning for revenue expenditure, a total of 149 authorities, or 84 per cent of the responding authorities, indicated that they do not engage in planning for several years ahead. These authorities were asked to rank in order of relevance a set of reasons, listed in question No. 5.3, which may have led to an authority's decision not to plan long-term revenue expenditure. Table 8.11 is provided to illustrate their responses (this table is presented on the same basis as Table 8.6).

It is clear from an inspection of Table 8.11 that uncertainty over the limit of expenditure which central government will provide, i.e. cash limits, and difficulty in assessing the future attitude

Table 8.11

The reasons mentioned by the respondents about
their attitude not to plan long-term revenue
expenditure (Q. 5.3)

Aspect Reasons mentioned	Average Scale Score *	N **
A. Uncertainty over the limit of expenditure which central government will provide.	3.63	142
B. Difficulty in assessing the future attitude of central government concerning its contribution to the authority's revenue.	3.44	140
C. There is a regular forward look at the level of commitments for the next financial year, and, at budget time.	2.33	126
D. Long-term planning is mainly relevant only to capital expenditure.	-2.17	115
E. The planning of revenue expenditure, when there is a high rate of inflation, is useless.	2.17	123
F. The planning of revenue expenditure is not necessary.	0.65	102
G. Other		5

* An average scale score of 2 means that the reason is
'of some relevance'.

**N refers to the number of responding authorities.

of central government concerning its contribution to the authority's revenue, i.e. RSG, are the dominant reasons ⁽¹⁾ given by respondents not to have long-term plans for revenue expenditure. In contrast, the long-term planning of revenue expenditure is not necessary, and it has come last, in sixth place ⁽²⁾. This finding again reflects the general attitude of local authorities toward long-term planning which has been explored in the discussion of long-term planning for capital expenditure.

Finally, there were five authorities who gave other reasons. Three of them considered that the lack of staff resources was their reason for not planning revenue expenditure for several years ahead. The other two authorities mentioned political changes at national and local level.

In Appendix 8.6 appears the detailed percentages of how relevant the responding authorities have considered each reason for their decisions not to plan long-term revenue expenditure for several years ahead.

On the other hand, 16 per cent of the responding authorities do plan revenue expenditure on a long-term basis. The need to plan revenue expenditure for several years ahead stems from the necessity for a local authority to consider all future implications of its

(1) These reasons obtained the highest scores respectively.

(2) This reason obtained the lowest score.

present decisions to produce more effective plans and programmes. As regards the planning horizon, the large majority of respondents (73%) use the period of two to four years and only 27 per cent plan revenue for five years and over. Table 8.12 below shows the distribution of responses according to the planning horizon.

Table 8.12

Long-term planning horizon for revenue
expenditure (Q5.2)

Planning horizon	Frequency of Response	%
2 years to 4 years	27	73.0
5 years	5	13.5
6 years to 9 years	3	8.1
10 years	2	5.4
Total	37	100.0
Total responding authorities 28		

As for testing the null hypothesis that carrying out long-term plans for revenue expenditure is independent in relation to the type of authority, Table 8.13 is provided to illustrate this relationship.

Table 8.13

Do you plan long-range revenue
expenditure for several years
ahead? (Q.5.1)

Type of authorities Aspect	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	8	32.0	16	11.8	4	25.0	28	15.8
No	17	68.0	120	88.2	12	75.0	149	84.2
Total	25	14.1	136	76.8	16	9.1	177	100

The chi square of Table 8.13 was 7.61 with 2 degrees of freedom, which is statistically significant at 2 per cent level. Thus, we conclude that the null hypothesis is rejected which means that there is a significant relationship between carrying out long-term plans for revenue expenditure and the type of authorities.

Appendix 8.7 is provided to demonstrate the distribution of how relevant the respondents expressed their views about each period as for long-term planning basis. It is worth noting that the two authorities which have indicated a 10-year period as their preference for long-term planning revenue expenditure have stated this period to be of no relevance at all.

8.6 The Monitoring Process

As regards the use of monitoring of performance, or measuring actual results against estimates of long-term plans prepared in previous years, for the purposes of improving and formulating long-term plans, we find that although a significant number of respondents (161) are using the monitoring process as a means for long-time planning, some of them (47 or 29%) have considered this process as very important. Fifty nine authorities (37%) have indicated this process as quite important; 41 authorities (26%) have considered it as of some importance, and 14 authorities have indicated this process as of little importance (see Appendix 7.8). This suggests that the full benefit from establishing a monitoring system

has not been achieved by many authorities, most of which appear still to consider the aim of a monitoring system to be mainly for the achievement of financial control over revenue and expenditure.

Here again the respondents on this question were classified according to their type of authority to find out if there was an association between the degree of importance of the use of the monitoring process in long-term planning and the type of authorities. The value of the chi square for Table 8.14 was 15.72 with 6 degrees of freedom which is not significant at the 5 per cent level. Thus, there is strong evidence that there was no relationship between these two variables.

Table 8.14

The degree of importance of the use of the monitoring process in relation to the type of authority. (Q6.)

Type of authorities Aspect	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Very important	5	22.7	40	32.0	2	14.2	47	29.2
Quite important	9	41.0	44	35.2	6	42.9	59	36.6
Of some importance	5	22.7	30	24.0	6	42.9	41	25.5
Of little importance	3	13.6	11	8.8	0	0	14	8.7
Total	22	13.7	125	77.5	14	8.7	161	100.0

8.7 The Effectiveness of Programme Budgeting; Corporate Planning, and Zero-base Budgeting

Authorities were asked to express their opinion about the effectiveness of PPBS, corporate planning, and ZBB as means of improving the decision-making process generally in public-sector service organisations. A total of 156 responding authorities (88%) have indicated that PPBS is an effective means of improving the decision-making process. Only 21 authorities do not believe in this system. As for the corporate planning approach, a total of 165 authorities (93%) have considered this system as an effective means of improving the quality of the decision-making process and only 11 authorities do not favour this system for this end. Meanwhile 156 authorities have ticked ZBB as an effective system and only 21 authorities have not. From the above figures it seems clear that the large majority of respondents do believe in PPBS and corporate planning as well as ZBB as an effective means of improving the decision-making process generally in public-sector service organisations, in spite of their practical attitude which is explored in section 8.1.

Although the number of authorities which do not believe in these systems are few, this number shows how some authorities are still confused about the value of these approaches and their potential contribution, although these systems have been in use for a long time in many other organisations. Table 8.15 shows the ranking in order of how these systems are considered as an effective means of improving the decision-making process generally in public-sector service organisations.

Section 8.15

Effectiveness of PPBS, corporate planning
and ZBB (Q7.1)

Type of systems	Average * Scale Score	N **
Corporate planning	2.73	165
Zero-base budgeting	2.20	156
Programme budgeting	1.67	156

* An average scale score of 2 means that the management system is 'of some effectiveness'.

** N refers to the number of responding authorities.

From the above table it can be seen that the corporate planning system has obtained the highest average scores, whereas ZBB has come in second place. It is interesting to note that this finding conforms with the finding of the answers to question one which are shown in Table 8.1.

It is appropriate to restate some of the important comments on question 7.1. More than one respondent has mentioned the political constraints as a major obstacle to an effective budgetary system. One of them, for instance, believes in the value of corporate planning and PPBS "provided that short-term political expedients are not permitted to disrupt forward planning."

Another respondent argued that the value of such approaches "depends on the political make-up of the council". Finally, a third commentator pointed to the effect of central government in saying that "central government control impinges on the decision-making process to a large extent". It is worth noting that these comments give strong support to hypothesis No. 8 (Chapter 7).

It is probably safe to say that any system/approach brings out the intrinsic value of proposals and compares that with the needs of the organisation and other competing proposals which have potential for improving decision-making. However, the effectiveness of any particular approach will be determined by the nature of the organisation concerned and its activities, and by the responsiveness of the organisation to the approach.

As for the distribution of how effective the respondents considered the above-mentioned management systems to be as a means of improving the decision-making process generally in public-sector service organisations (see Appendix 8.9).

There has been a wide variety of bases on which the responding authorities have made up their opinion to answer question 7.1 (see Appendix 7.1). As Table 8.16 reveals, the most important source of knowledge was the published material on the subject of the three management systems, i.e. PPBS, the corporate planning approach and ZBB, where a large number of the respondents indicated that they acquired their information from reading the relevant

literature (115 for PPBS, 113 as for the corporate planning approach and 125 as for ZBB). It should be noted that 41 authorities in this category were authorities which did not have any experience of the above-mentioned systems.

The next group was that which relied upon the experience of their authorities and this was only for the corporate approach and ZBB system. In contrast, in second place for PPBS was the group which relied upon the awareness of the experience of other authorities which have introduced such management systems. In third place was the group which gained their knowledge from the experience of other authorities and this was for corporate planning and ZBB. Finally, for the above-mentioned systems, the source of knowledge arising from personal experience in other authorities was at the bottom of the list.

Respondents were asked to indicate how much their answers to the above-mentioned question were influenced by the factors stated, i.e. major influence; minor influence, and no influence at all. It is interesting to note that the highest percentages of major influence were given to reading relevant literature as a source of their knowledge and this confirms the findings of Table 8.16 (see Appendix 8.10 for the details).

Table 8.16

Source of knowledge of newer budgetary developments
as an effective means of improving the decision-making
process generally in public-sector service organisations
(Q 7.2)

Management systems Source of knowledge	Programme Budgeting		Corporate Planning		Zero-Base Budgeting	
	Frequency of Response	%	Frequency of Response	%	Frequency of Response	%
From reading relevant literature	115	30.8	113	29.2	124	34.6
From the experience of own authority	88	23.4	105	27.1	88	24.4
From awareness of the experience of other authorities which have introduced such systems	92	24.7	88	22.8	78	21.6
From personal experience in other authorities	76	20.4	79	20.4	67	18.6
Other	2	0.5	2	0.5	3	0.8
Total	373	100.0	387	100.0	361	100.0

Total responding authorities were as follows:

to PPBS	...	147
to Corporate Planning	...	158
to ZBB	...	139

CHAPTER 9

ANALYSIS OF THE QUESTIONNAIRE

PART TWO

The analyses in Chapters 6 and 8 have revealed that the traditional budgeting procedures in English local authorities have many deficiencies and shortcomings which hinder the effectiveness and efficiency of the resource allocation process. However, the newer developments of management techniques, in particular corporate planning as well as ZBB, could be successful in overcoming these shortcomings through integrating planning with budgeting in a meaningful way. On the other hand, it seems true that there is no one unique system of budgeting which can meet the needs of all local authorities; each authority has chosen the procedures which fitted its own specific needs and circumstances.

The preparation of budgets is a long established practice in local authorities stemming originally from the need to calculate the level of taxation to be collected from the local inhabitants, and it developed into one of the tools of management employed to direct and control the affairs of multi-purpose authorities (Byrne, 1981). As indicated earlier, the budget was found to be an invaluable aid in planning and formulating policy and in keeping control over the execution of that policy.

The aim of this chapter is to look closely at the issues of the budgetary process, by focussing its inquiry on particular budgetary issues which are covered by questions 8 to 19 in the questionnaire. To achieve these aims, the chapter has been divided into the following sections:

1. The users of budgetary information.
2. The main functions of annual and medium-term budgets.
3. Setting the overall framework and concepts for budget preparation.
4. Forming the final consideration and decisions on the budgets.
5. Detailed estimates preparation.
6. Budgets as a means of control.
7. The effect of the cash limit system on the planning and operation of the budgetary system.
8. Availability of adequate and relevant information and data outputs.
9. Measurement of performance.
10. Changes in the accounting and auditing procedures.
11. Concluding remarks.

9.1 Users of Budgetary Information

As we have seen in Chapter 3 there are many definitions of a budget, but the one which seems most appropriate for local

authorities is the following definition which is stated in FIS (Volume 4):

"a budget is a financial and quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that time for the purposes of attaining a given objective."

From the above definition it is clear that the terms budgeting and policy setting are closely interlinked, that the budget is the expression in financial terms of a local authority's policies over the period covered by the budget and that it constitutes a statement of intention against which achievement can be compared.

As for the period covered by a budget, this can vary from a few days to many years but, traditionally, local authorities have concentrated on the one-year period linked to the necessary rate levy (Foster et al., 1980). Until comparatively recently, longer-term financial planning was mainly confined to the programming of capital expenditure and ad hoc appraisals, but there is increasing acceptance that more systematic, comprehensive planning and budgeting for a period beyond the next twelve months is beneficial (Byrne, 1981). As we have seen in Chapter 8, some authorities are now preparing annual, medium-term and long-term budgets. In this context, medium-term generally covers a period of up to five years and long-term usually relates to a period in excess of five years.

It seems generally accepted that the major functions of the local authority budgetary process are to assist the planning, control and report process of management. These functions are given different emphasis by the various users of budget information, and although the information is used at many levels of management, two broad classes can be distinguished:

- a. policy makers - the elected members assisted by Chief Officers, either individually or collectively.
- b. service managers - generally any officer responsible for expenditure on the whole or part of any service or activity.

Budget information is also collected to form national statistics and to provide guidance for national policies at central government level, but, the extent that these in turn influence local activities comes about through the decisions of local policy makers. According to Henley et al. (1983) the planning and policy-making function is a feature of all budgets whatever their time scale but the managing function is derived largely from the more concrete short-term budget.

Budget information is also very essential for the local authority associations because they play a key role in representing and advocating their members' interest, particularly with central government. They are convenient to central government who would find difficulty negotiating with a large number of individual

authorities. The budget information will help the mentioned associations in their negotiations with central government, when they are concerned with, for instance, the settlement of RSG (Henley et al., 1983).

For the public and the press, budget information is very important. As a matter of fact their right to budget information arises from their need to check on how well the authority under consideration does represent their interests. In general, the interests of the public are similar to those of the resource providers. They want to know the nature of the authority's activities and how effectively and efficiently it will be managed (Anthony, 1978). The public have a more personal interest in these matters, however, as the ratepayers want to know about the size and the range of the services which will be provided.

Question 8 (see Appendix 7.1) aims to establish the priority of the users of budget information within English local authorities, where authorities were asked to rank in order of importance how important they considered each of the listed groups to be for using budget information. Table 9.1 below is provided to report their opinions.

From the table, it can be seen that the most dominant users of budget information are service managers and policy makers as they obtained the highest scores respectively (i.e. 3.94 and 3.87). This again reflects the fact that budgeting and planning or setting policies are closely interlinked as has been indicated previously.

Table 9.1

The relevance of importance of different users
of budget information as assigned by the
respondents. (Q.8).

The users of budget information	Average Scale * Score	** N
A. Service managers - generally any officer responsible for expenditure for the whole or part of any service or activity.	3.94	177
B. Policy makers - the elected members assisted by chief officers	3.87	176
C. The public and Press	2.86	146
D. Local authority associations	2.77	126
E. Central government (e.g. civil servants, MPs, etc.) to help them form and guide national policies	2.70	142
F. Ratepayers' association	2.69	97
G. Other local authorities, for comparative purposes	2.38	160
H. Other	-	9

* An average scale score of 2 means that the users' group are "of some importance".

** N refers to the number of the responding authorities.

It is interesting to note that both the public and the press as users of budget information were given an advanced position over central government, where the latter obtained a score of only (2.70), whereas the former gained a score of (2.86). This finding seems, most probably, to indicate that English local authorities are becoming more and more aware of the public accountability aspects.

Table 9.1 further shows that nine authorities have indicated other users for budget information. Three of them have indicated CIPFA statistical publication as the other user of budget information. Another three authorities have mentioned pressure groups such as trade unions, chambers of commerce and the CBI, as users of budget information. For the rest of this group of authorities, additional aspects mentioned as other users of budget information included rate levy and local political parties.

For the distribution of how important the respondents considered budget information should be to each user (see Appendix 9.1).

9.2 The Main Functions of Annual and Medium-Term Budgets

As we have seen in section 9.1 above, the budget is a statement containing the details of the local authority current and capital expenditure and income together with plans for the coming year. While traditionally the budget is drawn up for one year at a time, it has become common practice to develop forward plans for several years ahead, ⁽¹⁾ based tentatively on the authority's long-term

(1) However, in practice as we have seen in Chapter 8, this has become extremely difficult because of the uncertainties regarding central government grants, economic policy, interest rates, and inflation.

corporate plans, together with population forecasts and estimates of need in the local community. This section aims to present the general profile of the main functions of both annual and medium-term budgets.

9.2.1 The Main Functions of the Annual Budget

In the context of local authorities, the annual budgetary process and the approval of the estimated expenditure and income results in the fulfilment of five main functions (FIS, Volume 4):

1. enables the rate or precept to be fixed.
2. assists in policy-making.
3. assists the authority's planning of future expenditure.
4. provides the base for the control of expenditure and income.
5. provides a yardstick for measuring implementation of policy.

A word about each of these functions seems in order as follows:

Fixing the Rate and Precept - the General Rate Act 1967 requires a rate to be levied to cover the estimated needs of the period. Of course, the preparation of the annual budget incorporating the proposed expenditure and income of the various services of the authority together with the revenue effects of proposed capital

expenditure and any general contingency less the RSG and other general income arrives at the balance to be met from rates. This total may have been predetermined and the budget prepared to match it or the budget figures may be adjusted after initial preparation until an acceptable rate levy is reached (FIS, Volume 4; Foster et al., 1980).

Assists in Policy-Making - in its planning role the budget provides financial information, as indicated earlier, which guides members in making policy decisions about the services for which they are responsible. The annual budget enables them to see the estimated financial consequences of different policies and to measure these against estimated available resources. It forces them to choose final priorities (FIS, Volume 4; Byrne, 1981).

Authorising Future Expenditure - As indicated earlier in Chapter 3, the budget is a plan of action and its adoption by the council usually carries with it approval of expenditure within the estimates (Byrne, 1981).

Providing a Basis for Control - the budget forms a base for controlling the financial affairs of the local authority. Expenditure and income are monitored and compared with the estimated expenditure and income at regular intervals in order to highlight significant variations. It is worth noting that for control purposes revenue budgets are usually divided into numerous subjective accounting heads, in greater detail than is normally required for planning purposes. On capital account planning and control information is usually in a similar form for each individual

scheme (FIS, Volume 4; Henley et al., 1983).

Provides a Yardstick Measuring Implementation of Policy - financial information has a useful role to play in the monitoring of the implementation of policies and seeing the extent to which the intentions set out in plans and budgets are achieved. On the capital side, the expenditure to date on each individual scheme can be compared with the estimated planning of expenditure to indicate whether schemes are progressing on time or whether some rephasing is necessary. Similarly, financial information is a useful indication of the extent to which revenue development is going according to plan, except that it relates to the efficiency with which inputs into the service are being consumed and says relatively little about the effectiveness of those inputs in solving problems. As stated earlier, when resources are very scarce it is important that authorities apply their resources with the greatest effectiveness toward the attainment of their objectives.

Returning to the survey where authorities were asked to indicate how important they consider each of the listed functions to be as a function of the annual budget of their authorities (see question No. 9 in the questionnaire in Appendix 7.1). Table 9.2 is incorporated to show their views.

As Table 9.2 shows the most important function of the annual budget is to enable the rate or precept to be fixed. Some way behind this function comes function (B) and this again reflects the fact that the annual budget is the best technique for controlling the

Table 9.2

How important do you consider each of the listed functions to be as a function of the annual budgets of your authority? (Q.9.)

Functions of the annual budgets	Average Scale * Score	** N
A. Enables the rate or precept to be fixed.	3.94	177
B. Provides the base for control of expenditure and income	3.77	177
C. Assists in policy-making	3.55	175
D. Assists the authority's planning of future expenditure	3.05	175
E. Provides yardstick measuring implementation of policy	1.74	175
F. Other	-	6

* An average scale score of 2 means that the function of the annual budget is "of some importance".

**N Refers to the number of responding authorities.

management of local authorities' resources. Next was function (c) which obtained a score of (3.05) and this finding strongly supports the findings of Table 9.1 where the respondents have reported budget information for policy-makers in second position, in order of importance. It is surprising to find that the annual budget for providing a yardstick for measuring achievement has come at the bottom of the list, where it obtained a score only of (1.74). Again this finding strongly supports one of the findings of Chapter 8, which suggests that the full benefit from establishing a monitoring system has not been achieved by many authorities. It is becoming well known that the process of monitoring is essential in both planning and control stages.

Finally, other functions were mentioned by six authorities; they include, providing a base for value for money studies; inter-authority comparisons; basis of manpower planning; assists in stewardship alongside accounts, and in general it helps public accountability aspects.

Regarding the distribution of how important the responding authorities considered each of the listed functions to be as a function of the annual budgets see Appendix 9.2.

9.2.2 The Main Functions of the Medium-Term Budget

Medium-term budgeting, i.e. up to five years, in local authorities has existed for many years in a limited form in capital

programmes, which covered a number of years but, according to FIS (Volume 4) only recently has there been much evidence of attempts to predict the full revenue consequences of forward revenue and capital budgets. Financial information for such budgets is designed primarily for elected members as an aid to making policy decisions. As such, its basic requirement is that it should concentrate on areas over which members can exercise their discretion by highlighting proposals for variations in the provision of services.

In question No. 10.1 the respondents were requested to report if they had a medium-term budget or not (see the questionnaire in Appendix 7.1). It was surprising to find out that only 33 of the responding authorities, or 19 per cent, reported having a medium-term budget up to a period of five years, and 144 authorities, or 81 per cent, have not. The most likely reason for this is the present economic climate of restraint and uncertainty over the financial contribution by central government, as was mentioned previously in Chapter 8. It should be borne in mind that, of the 33 responding authorities, which reported using medium-term budgets up to a period of five years, five authorities prepared such a budget only for capital expenditure. This once more, confirms the fact that some local authorities do not believe in the value of medium-term plans for revenue expenditure and they consider that long-range planning is mainly relevant only to capital expenditure.

To try and determine the relationship between having a medium-term budget and the size of the authorities Table 9.3 is presented.

Table 9.3

Having a medium-term budget in
relation to the size of the authority

Authority's size Having a medium-term budget	Small		Medium and large		Total	
	No.	%	No.	%	No.	%
Yes	7	9.6	26	25.0	33	18.6
No	66	90.4	78	75.0	144	81.4
Total	73	41.2	104	58.8	177	100

The chi-square for the above table was 5.74 with one degree of freedom, which is statistically significant at the one per cent level. Therefore, the evidence does justify the rejection of the null hypothesis. This means that there was a relationship between having a medium-term budget and the size of the responding authorities which reported having such a budget. One possible explanation might be that medium and large authorities have more resources, in terms of money and personnel needed to prepare such budgets.

In order to test and illustrate the relationship between having a medium-term budget and the type of authorities Table 9.4 is provided.

Table 9.4

Having a medium-term budget in
relation to the type of authority

Type of authority Having a medium-term budget	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	7	28.0	22	16.2	4	25.2	33	18.6
No	18	72.0	114	83.8	12	75.0	144	81.4
Total	25	14.1	136	76.8	16	9.1	177	100

The chi square for the above table was 2.41 with 2 degrees of freedom, which is not statistically significant at the 5 per cent level. One has, therefore, to accept the null hypothesis of independence between the type of the authority and having a medium-term budget. It seems that there is no association between these two variables.

The respondents who reported using a medium-term budget, were requested to rank in order of importance a set of functions which could be the functions of a medium-term budget (see question 10.2). The responding authorities' views are incorporated in Table 9.5 below.

Table 9.5

How important do you consider each of the listed functions to be as a function of the medium-term budgets of your authority? (Q. 10.2).

Functions of the medium-term budgets	Average Scale Score *	** N
A. To plot the longer-term financial consequences of different projects, whether revenue or capital, to assist in policy choice.	3.18	33
B. To enable political priorities to emerge in the light of what is possible within the limited physical and financial resources available	3.03	33
C. To display the cumulative effects of existing commitments, both revenue and capital, as a base for future changes in service provision.	2.79	33
D. To reflect the continuing burden of local service provision and possible developments and policy changes	2.42	33
E. To review the relative speed at which different services can be developed and to achieve a co-ordinated approach to service development	2.06	32
F. To forecast possible rate levies well in advance so that members can indicate political accountability	1.97	32
G. To consider the development of local services in the light of government indicators such as the Public Expenditure Survey	1.66	32
H. To weigh the longer-term forecasts submitted to government departments	1.16	31
I. Other	-	5

* An average scale score of 2 means that the function is "of some importance"

**N refers to the number of respondents.

From the above table it can be seen that the function of medium-term budget to plot the longer-term financial consequences of different projects whether revenue or capital, to assist in policy choice, comes at the top of the table with a score of (3.18). This finding confirms the fact that such budgets (i.e. medium-term) are designed primarily for elected members as an aid to making policy decisions as indicated earlier. Perhaps the allocations of resources between services will always be a political choice and this could be the case for competing priorities within a service, as has been mentioned before in Chapter 5. In second place came the medium-term budget which enabled political priorities to emerge in the light of what is possible within the limited physical and financial resources available and this once again supports the above finding.

Also, as Table 9.5 shows, at the bottom of the list was the function of weighing the longer-term forecasts submitted to government departments with only a score of (1.16) and this again reflects the general attitudes of the responding authorities toward long-term planning which stems from the fact that in central government planning relatively short-term and long-term possibilities are subject to change due to uncertainties about the economy as a whole.

Other functions mentioned by five respondents include; to allow forward design to progress; project financing requirements; enable spending committees and/or officers to make bids for future schemes, and to act as 'cash' targets for individual committees.

Finally, as for the distribution of how important the respondents considered each of the listed functions to be as a function of the medium-term budgets, Appendix 9.3 is provided to show their opinions.

9.3 Setting the Overall Framework and Concepts for Budget Preparation

Generally speaking, it is probably safe to say that the responsibility for setting the overall framework and concepts for budget preparation and co-ordinating the task almost invariably lies with the Treasurer's Department or Director of Finance. To substantiate the validity of this statement, authorities were asked to state the title of the officer or group who is responsible for setting the overall framework and concepts for budget preparation and co-ordinating the task (Q.11).

It was found that 143 authorities⁽¹⁾ or 84 per cent of the responding authorities stated that the Treasurer or Director of Finance in conjunction with the Chief Executive, Chief Officers, Management Team and senior members set the overall framework and the concepts for budget preparation, and were responsible for co-ordinating the task. Only 28 authorities (16%) stated some other groups. Seventeen authorities out of this number mentioned a policy committee assisted by the Treasurer or Director of Finance and 11 authorities stated Chief Officers' group.

(1) The total number of the responding authorities to this question was only 171.

This finding, most likely, reflects the fact that the Treasurer or the Director of Finance has responsibility for the financial affairs of the authority and would assume overall charge of the budget preparation.

9.4 Forming the Final Consideration and Decisions on the Budgets

It is probably safe to say that, the process of consideration and decision on local authority budgets will depend as much on the personalities involved at chief officer level and member level as they do on the formal management system. Question 12 aims to establish the possibility of identifying the main participants in this process and assesses their contribution. In the above-mentioned question authorities were requested to indicate how much influence is exerted by one or more of the listed groups in forming the final consideration and decisions on the budgets. Table 9.6 is incorporated to illustrate their responses.

It is clear from an inspection of Table 9.6 that the policy or finance committee obtained the highest score, this means that this committee has the most influence or power on final consideration and decisions on the budget. As a matter of fact, the role of such a committee or other co-ordinating committee with similar powers, is to make the final recommendation to the council on the authority's budget. They will have received the report of the treasurer on the general financial situation together with the advice of the management team, have listened to the views of the programmes

Table 9.6

How much influence is exerted by one or more of the listed groups in forming the final consideration and decisions on the budgets of your authority? (Q12).

Groups	Average Scale Score *	** N
A. Policy or finance committee	3.51	174
B. Treasurer/Director of Finance	3.28	174
C. General committee of local party in power	2.73	150
D. Some of the individual chief officers.	2.61	168
E. Service committees	2.55	164
F. Programme committees	2.43	165
G. The whole council	1.97	161
H. Management team	1.84	165
I. Other		20

* An average scale score of 2 means that influence exerted is "to some extent".

**N refers to the number of the responding authorities.

and service committees, considered national policy as expressed by central government, sounded out the opinions of the political parties and other bodies, and made a judgement on the level of rate acceptable to the ratepayers. This final decision will reflect all these factors and will involve a clear choice about priorities at the local level. Next was the Treasurer or Director of Finance which obtained a score of (3.28), and this once again strongly supports the finding of section 9.3, which suggested that the Treasurer or Director of finance has overall control of the budget preparation.

In third place as the table shows came the general committee of local party in power; this finding seems to confirm the assumption which emphasises that party politics has become a firm feature of local government and political groups' meetings are held regularly in many authorities. Their prime reason for existence is to promote and control local policies and it is difficult for them to do so without having regard to the authority's budget (Henley et al., 1983); Byrne, 1981). It came to my attention during my interviews with some of the respondents (see Chapter 7) that there is growing pressure for officers to attend such meetings. Of course, budget reports are discussed at such meetings and decisions taken which will later be reflected in decisions by committees of the authority.

Some way behind as it can be seen from the above table was some of the individual chief officers; it seems true that the primary concern of the chief officers will be to see that the needs of the services for which they are responsible are properly considered.

They will advise the programme committee or other relevant committee on those needs and the various options available to the committee to satisfy them and they clearly exercise a powerful influence over policies for service development.

In fifth and sixth places as the above table shows were service committees and programme committees; these committees are interested in the services for which they are responsible and their role in the decision-making process is a fairly narrow one. As one respondent put it:

"Policy committee and the County Council take the final decisions, but the practical politics are such that their assent to the recommendations put to them is a foregone conclusion. Our service committees are given overall financial allocation and may then allocate them in detail to service activities."

These committees will strive to see that the resources allocated are sufficient to maintain their services and that the future needs of those services are properly recognised. It is they who will establish priorities for growth or decline in the service. In doing so, they will be influenced considerably by the professional advice of the chief officers.

Finally, at the bottom of the list were the whole council and the management team. As it can be seen, they obtained scores of only (1.97 and 1.84) respectively. As for the whole council, it

is probably well known that the council meeting is largely a political occasion to publish the budget and enable a full public discussion of its implications to take place. Members tend to concentrate on the philosophy behind the policies being pursued and the recommendation of the policy committee is likely to be endorsed. However, it must be emphasised that the council is the final decision-making body and it is important that full consideration should be seen to have been given to the decision (FIS, Volume 4).

As for the management team, it was surprising for this group to be at the bottom of the list. One has assumed that this group is normally at the centre of budgetary procedures acting in close co-ordination with the policy committee or finance committee, or a sub-committee thereof. The influence of the management team will depend on the extent to which its members can put aside their special interests to adopt a corporate role and the relationship it establishes with the members of the policy committee.

Finally, as the table shows, there were some authorities which mentioned other parties who could influence the final consideration and decisions on the budgets such as, multi-disciplinary budget working parties, the leader of the council, senior chairmen, Chief Executive, chairman of committees, service managers, local pressure groups, and the Department of the Environment.

For the distribution of how much influence is exerted by one or more of the listed groups in forming the final consideration

and decisions on the budgets see Appendix 9.4.

9.5 Detailed Estimates Preparation

Generally speaking, responsibility for the preparation of detailed estimates of the budgets can take a number of forms. At one extreme, the treasurer's department or the finance department may carry out all preparation merely using the service departments as a source of information. Under such a system, the budget working papers will invariably be completed by finance staff although service departments will still be consulted about certain aspects of their budgets, e.g. costs of new developments, reasons for under or over spending in previous years. When detailed estimates have been prepared there is also likely to be consultation with departments in case any "fine tuning" is necessary whilst departments, even under this system will have the prime responsibilities for suggesting areas for growth and cuts. This system is known as a centralised system.

At the other extreme, service departments can do most of the preparation with the finance staff collating the end results. Although the structure of budget working papers may be formulated by the treasurer's department, their compilation under this system will take place in service departments. There will sometimes be a formal system of decentralised finance, with individual departments having formally designated finance officers. Also, under this system the treasurer's department will receive the completed estimates

and its role essentially will be to check that the correct principles have been used, and then to collate the estimates for presentation to members. This system is known as a decentralised system (Rosenberg and Tomkins, Undated).

But one could expect that the usual practice would fall somewhere in between these two extremes, and even within a single authority a variety of arrangements may be used, where the finance department furnishes basic data and criteria for preparation, with spending departments producing forward projections. This system could be described as, 'partly centralised and partly decentralised'.

The survey has shown, in response to question 13, that 126 of the responding authorities, or 71 per cent, are using the third system mentioned above. (i.e. partly centralised and partly decentralised). A total of 48 authorities (27%) reported using a centralised system, based on the treasurer's department with work mainly carried out by staff in the treasurer's department. Only three authorities mentioned a decentralised system based on service departments, with work mainly carried out by staff in the service departments.

It seems that the vast majority of the respondents tend to doubt the practical value of the two above mentioned extreme systems, i.e. the centralised system and the decentralised one, and prefer a combination of both systems aiming at better allocation decisions.

To find out if there was an association between the use of specific systems in estimating and preparing the budgets and the size of the authorities, a chi square test was used to present Table 9.7. Note that to apply the chi-square test for this table we ignored the three responding authorities which indicated using a decentralised system, because it was believed that they are not statistically significant.

Table 9.7

Type of system used in estimating and preparing budgets in relation to the size of authorities.

Size of authorities Type of system	Small		Medium and Large		Total	
	No.	%	No.	%	No.	%
A centralised system	24	33.3	24	23.5	48	27.6
Partly centralised and partly decentralised	48	66.7	78	76.5	126	72.4
Total	72	41.4	102	58.6	174	100.0

The value of the chi square test obtained from Table 9.7 was 2.03 with one degree of freedom, which is not statistically significant at the 5 per cent level. In this case one has to accept the null hypothesis of independence between the type of system used and the size of authorities. It seems that there is no association between these two variables.

As for testing the relationship between the system used in estimating and preparing the budgets and the type of authorities Table 9.8 is provided to show this relationship.

Table 9.8

Type of system used in estimating and preparing budgets in relation to the type of authorities

Type of authorities Type of system	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
A centralised system	4	17.4	41	30.4	3	18.8	48	27.6
Partly centralised and partly decentralised	19	82.6	94	69.6	13	81.2	126	72.4
Total	23	13.2	135	77.6	16	9.2	174	100

The chi square value of the above table was 15.76 with 2 degrees of freedom and large enough to reject the null hypothesis. This means that the type of authority and the system used in estimating and preparing the budgets are not independent. This result, however, must be treated with reservation since two expected values of Tables 9.8 (2.52 and 2.41) were in fact less than five.

9.6 Budgets As A Means of Control

Budgets are a controlling influence throughout the whole cycle of an authority's affairs; this control can be broken down into three main areas (FIS, Volume 4):

First, control during preparation; this aspect of control which is an integral part of the budget procedures comes in two forms. Firstly, there is the control exerted by the acceptance of overall resource restraints; the authority has pre-conceived ideas of the level of resources likely to be available from various sources (see Chapter 6). This level of available resources influences the attitude to the preparation of the budget and therefore controls the planned activities for the ensuing budget period. Secondly, there is the control exerted by the actual build up of the budget; the treasurers can assure themselves that only such items that they have approved are actually being incorporated into the budget. This entails a systematic approach which highlights the significant stages in the build up of the budget and enables control to be exerted on the marginal variations.

Second, control during outturn; this is the area traditionally associated with budgetary control where an attempt is made to monitor actual activity against the planned position. It should be noted that the framework for this type of control is founded on an adequate set of standing orders and financial regulation, and requires a system aimed at informing the appropriate level of management of the current position in his/her area of control.

Third, control by end-of-year review; this type of control comes when the outcome of each budget, i.e. actual performance, is reviewed with hindsight and compared over fairly broad issues to see how the evaluation of the results match up with the original intentions contained in the budget. In this way according to Henley et al. (1983) an authority can investigate and measure the output from its policies, learn from the results and thus control the build up of future budgets to reflect this previous performance. However, it must be borne in mind that because of the difficulty of measuring results in service organisations in general, no formal model relating input to output can be devised (Anthony and Dearden, 1976; Dermer, 1977), and thus the specification of input-output relationships and evaluation of performance seems most likely to rely on judgement (see Chapters 3 and 6).

Returning to the survey, where authorities were asked in question 14 to indicate what types of budgetary control are practised at various times through the cycle of their authority's affairs and how important is each type of control. Table 9.9 below is incorporated to illustrate their responses.

From the table it can be seen that the listed types of budgetary control are well recognised by the vast majority of the responding authorities, considering that the frequency of response was very high (i.e. 172; 174, and 164) respectively. However, in their order of importance the 'A' type of budget control came at the top of the list with a score of (3.75) or practically it was considered as very important. Next as the table shows, was the

Table 9.9

What types of budgetary control are practised
at various times through the cycle of your
authority's affairs? (Q14)

Type of budgetary control	Average Scale * Score	** N
A. Control during preparation (i.e. control exerted by the acceptance of overall resource constraints).	3.75	172
B. Control during outturn (i.e. control is made to monitor actual activity against the planned position).	3.56	174
C. Control by end-of-year review of actual performance under each budget.	2.67	164
D. Other	-	7

* An average scale score of 2 means that the type of budgetary control is of "some importance"

**N refers to the number of responding authorities.

"B" type of control. At the bottom of the list was type "C", and this again reflects the attitude of local authorities toward the monitoring process which has been discussed in detail in section 8.6, Chapter 8.

Other phases of the budget's controlling influences were mentioned in other categories, as the table shows, including informal liaison between relevant staff at all stages of budget preparation and their control upon implementation; main expenditure budgets are controlled regularly in total, e.g. (salaries, wages, transport, and capital); control of expenditure and activities through manpower; control during the course of the year, and monthly progress reports.

As regards the distribution of how important the respondents have considered each type of budgetary control which is practised at various times through the cycle of an authority's affairs, see Appendix 9.5.

As has been mentioned earlier the framework for budgetary control during outturn should be founded on an adequate set of standing orders and financial regulations in order that there can be no misunderstanding by committees of the authority for incurring expenditure which they have been granted, as well as for the officers in various levels of management. Such regulations are normally contained within the approved financial standing orders of the council which would also cover such matters as revenue and capital development budgets, annual budgets and regulations related to contracts.

Question 15 aims to investigate whether English local authorities are aware of the final ends of such regulations, where authorities were asked to indicate if they have adopted written regulations for budgetary-control purposes regarding some selected items, which it was believed would probably need the most careful consideration. Table 9.10 is provided to illustrate their answers.

Table 9.10

Have your authority adopted written regulations for budgetary-control purposes, regarding each of the following items? (Q.15)

Spending items	Yes		No		* N	
	No.	%	No.	%	No.	%
a. Spending (within delegated powers committees may incur expenditure other than the approved estimate without further approval of the council).	115	65.3	61	34.7	176	100
b. Supplementary estimates	164	93.0	12	7.0	176	100
c. Capital schemes	168	95.5	8	4.5	176	100
d. Control of spending	155	88.1	21	11.9	176	100
e. Revenue Virement	158	89.3	19	10.7	177	100
f. Capital Virement	93	52.5	84	47.5	177	100
g. Unspent Balances (Estimates)	44	24.9	133	75.1	177	100
h. Control of Manpower numbers	101	57.1	76	42.9	177	100
i. Other	6		-	-	6	-

*N refers to the number of responding authorities.

According to the above table, 65 per cent of the responding authorities have adopted written regulations for expenditure which is incurred within a delegation power to committees approved by the council. But, the vast majority of the respondents have reported having such regulations for supplementary estimates (93%); capital schemes (96%); control of spending (88%), and for revenue virement (89%). Whereas, for capital virement only 52 per cent have adopted such regulations.

Also, as the table shows, only 24 per cent of the respondents have mentioned having such regulations for unspent balances (estimates). It was mentioned during one of my visits to some of the responding authorities that the control over this item is left for the traditional practices, i.e. informal regulations.

It is worth noting here that from the budgetary control aspect the greater the number of financial standing orders or written financial regulations the stricter and more detailed the control. Very detailed control can, however, have the opposite effect intended because the regulations become so onerous that in time they tend to be ignored. The aim should therefore be to strike a balance between the two extremes which will enable the treasurer or the director of finance to exercise adequate budgetary control over the expenditure of committees whilst at the same time allowing them the flexibility appropriate to a responsible body.

Finally, in other category, as the above table shows, there were six authorities who adopted such regulations for other items

including: tendering procedures; financial regulations for emergency; standing orders for goods, materials and services; delegated power of the Director of Finance to approve revenue increments within a committee, but not across committees; and review of fees and charges.

9.7 The Effect of a Cash Limit System on the Planning and Operation of a Budgetary System

As has been explored in section 5 Chapter 4, the cash limits were conceived by central government as a method of achieving better control over expenditure. If inflation exceeds the level estimated by central government there is no guarantee that it will contribute extra funds towards meeting that excess and probably the only solution may be to reduce the level of service. Also, it has been mentioned in Chapter 6, that cash limits have been applied to RSG and certain specific grants since 1976/77, and are likely to be applied in future years (Likierman, 1981).

As far as budgeting is concerned the introduction of cash limits added a further uncertainty to the process, to the extent that the authority feels that the national forecasts of inflation are unrealistic and it is free to provide a contingency based on its own assumption and charge it to the ratepayers. But, this is likely to be at the expense of some service developments (Barlow, 1981).

This was further explored in more than one comment expressed by some of the respondents. As one put it:

"Cash limits influence the planning and budgetary system because they are based on the central government's pay policy and forecasts of inflation which usually turn out to be much higher than estimated. If this happens, then to keep the rate rises within acceptable proportions, the result will be further cuts in services. (In some circumstances it could also cause the authority to levy a supplementary rate)".

The same view was expressed in this extract from another respondent:

"As the Government now cash limits relevant expenditure/block grant and capital block expenditure allocations, the Council has to ensure that its spending is contained within these limits unless it wishes to suffer from grant clawback/holdback (and an associated rate increase and/or expenditure cuts) on revenue account and possible shortfall of funding for planning capital expenditure. Also, if block allocations plus top up by using capital receipts etc. are exceeded the Secretary of State may invoke the penalties contained within the Local Government Planning and Land Act."

Also, if the budget plans are expressed in cash terms, i.e. cash planning, then service committees will be given an agreed percentage variation on the base budget to cover both changes in the volume of services and changes in price levels. This means that the budgets have to be prepared on an assumed level of inflation and constantly monitored during the course of the year so that, if inflation varies from the assumption made, volume changes can take place in order that the budgeted expenditure is not exceeded. It presupposes that there will be no additional allocations during the course of the year to assist service committees if inflation is greater than in the assumption made (FIS, Volume 4).

Referring back to the questionnaire (Q.16.1), we find that a large number of the respondents (142), or 81 per cent have acknowledged the fact that the cash limit system has a great deal of influence on the planning and the operation of the budgetary system. Only 33 authorities (19%) have not. ⁽¹⁾ It seems true that in budget preparation, authorities are more interested in "working backwards" from (a) an acceptable rate levy and (b) central government targets. This imposes an effective "cash limit" on the budget. Once the budget is fixed, as inflation is included, the system is worked for budgetary purposes, strictly on a cash basis. Therefore, one obvious conclusion could be reached; that the cash limit system is playing a major part in the planning and the operation of the budgetary system in local authorities.

(1) The total number of the responding authorities to this question was only 175.

To find out if there was an association between the above-mentioned attitude of the responding authorities and the size of the authorities Table 9.11 is incorporated to illustrate this relationship.

Table 9.11

Do you think that the cash limit system has a great deal of influence on the planning and operation of the budgetary system in your authority?

Size of authorities	Small		Medium and large		Total	
	No .	%	No .	%	No .	%
Yes	61	83.6	12	79.4	73	81.1
No	81	16.4	21	20.6	102	18.9
Total	142	41.7	33	58.3	175	100

The value of the chi square obtained from the above table was 0.48 with one degree of freedom. This value is below that sought for statistical significance at the 5 per cent level. One has, therefore, no ground for rejecting the hypothesis of independence between these two variables. Apparently there was no association between them.

Table 9.12, on the other hand, relates the response to question 16.1, i.e. the opinion expressed by the respondents regarding the influence of the cash limit system on the planning and the operation of the budgetary system to the type of authorities.

Table 9.12

Do you think that the cash limit system has a great deal of influence on the planning and operation of the budgetary system in your authority?

Type of authorities	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	18	72.0	111	82.2	13	86.7	142	81.1
No	7	28.0	24	17.8	2	13.3	33	18.9
Total	25	14.3	135	77.1	15	8.6	175	100

The chi square value of Table 9.12 was 1.77 with 2 degrees of freedom, which is not statistically significant at the 5 per cent level. Thus, it is evident that there was no significant relationship between the opinion expressed by the respondents regarding the influence of the cash limit system on the planning and the operation of the budgetary system and the type of the authorities.

Finally, authorities were asked in Question 16.2 to indicate how much influence is exerted by the cash limit system on the planning and the operation of the budgetary system. Their views are incorporated in Appendix 9.6.

9.8 Availability of Adequate and Relevant Information and Data Outputs

As discussed in some detail in Chapter 6, the existence of accurate and relevant information is one of the main requirements for developing and implementing a budgetary system effectively and efficiently. Table 9.13 below presents the various types of information and data outputs required from the accounting system in order to assist a good budgetary system.

Table 9.13

What types of information and data outputs are required from your accounting system? (Q.17)

Types of information and data outputs	Average Scale * Score	** N
A. Comparison with budget	3.53	172
B. Cost data	3.33	165
C. Financial position statements	3.25	147
D. Financial reports	3.17	139
E. Progress reports/management reports	2.97	117
F. Special analytic studies including effectiveness indicators	1.91	33
G. Data to be used for economic and social studies	1.54	26
H. Other	-	9

* An average scale score of 2 means that the type of information and data outputs are "of some use".

**N refers to the number of responding authorities.

An examination of Table 9.13 reveals that the information and data required for comparison with budget is the most important type of information, this, once again illustrates how much the budgets form a base for controlling the financial affairs of the local authority. As has been mentioned earlier, actual expenditure and income are monitored and compared with estimated expenditure and income at regular intervals in order to highlight significant variations. It should be emphasised that it is necessary to ensure that such comparisons of expenditure and income are being compared with a budget head based on the same premise. Some way behind in importance was the cost data.

In third place was financial position statements, this confirms the fact that the need to prepare such statements is being recognised by more and more local authorities as discussed in Chapter 6. Also, it seems that many English local authorities (139) have realised the importance of financial reports as a source of information as well as progress reports (117 authorities).

However, only 33 authorities have used special analytical studies which are considered as a very basic element in any effective budgetary system (see Chapters 3 and 6). It seems that English local authorities lack sufficient resources, human as well as financial, to conduct such essential studies. But, unless local authorities find the required skills to carry out the necessary analytical studies, the effectiveness of any new budgetary development tends to be limited as the American experience has shown (see Chapter 3).

As for information and data outputs to be used for economic and social studies only 26 authorities, as the table shows, have realised the importance of collecting such data to identify the needs and problems of the public as a step to determine the authority's objectives and priorities.

Other information and data outputs were mentioned in other category , as the above table shows, and include the following: manpower budgets; performance review and value for money studies; subjective analysis of estimates; raw material data for ad hoc analysis; capital project costs compared to approval; trading accounts for direct labour organisations providing a measure of commercial viability; special analytical studies without effectiveness indicators; and options statements.

As regards the distribution of the extent to which authorities use each type of information and data outputs, see Appendix 9.7.

9.9 Measurement of Performance

To implement and improve the planning and budgeting systems effectively the use of a technique to assist in the measurement of output is inevitable in most cases. As has been mentioned in Chapters 3 and 6, the objectives of local authorities are largely non-financial in nature. Unlike the nationalised industries, few key performance measures can be reduced to a financial basis, perhaps an exception being the rate of return for direct labour organisations.

Also, as discussed in the above mentioned chapters, consideration of performance tends to focus on two issues; efficiency and effectiveness. However, this study seems to indicate that English local authorities did not support these views in their response to question 19 (see Appendix 7.1) which is incorporated in Table 9.14 below.

Table 9.14

How important do you consider each of the
listed techniques to be for the purposes of
measuring the output of your authority?

Techniques for measuring the output	Average Scale * Score	** N
A. Financial and non-financial statistics	2.95	172
B. Cost effectiveness analysis	2.46	160
C. Cost-benefit analysis of ongoing revenue expenditure	1.36	154
D. Other	-	6

* An average scale score of 2, means that the technique is "of some importance".

** N refers to the number of responding authorities.

As can be seen from the above table, the average scale score for the mentioned techniques is below three, i.e. quite important, even one of them obtained a score of only 1.36, or practically as "of little importance". In addition, some respondents indicated

that they did not use any technique at all to measure their output. Also, there were some authorities which mentioned that they applied output measurement techniques to a number of limited cases. They did not indicate, however, the techniques or the situation in which they were used.

Thus, if cost-benefit analysis is used, it is not normally applied universally to measure the output of all the authority's services. There are two complementary explanations for this. Firstly, it must be accepted that some services are very difficult to measure. Secondly, the overall use of these techniques for all services will require a great deal of resources, both monetary and human. It seems true that local authorities either cannot afford these extra expenses or perceive that the cost to benefit ratio is not advantageous. It is likely that some authorities tried to overcome this problem by using cost effectiveness analysis. With this technique there is no need to measure the expected output in money terms (see Chapters 3 and 6).

Perhaps financial and non-financial statistics as the most important technique, as the table shows, stems from the fact that comparison is at the heart of measurement of efficiency. Inter-authority comparisons have been the subject of much interest in local government as elsewhere (Henley et al., 1983; Hatry et al., 1979). Also, in the code of practice on publication of information an appendix is devoted to "performance statistics" where authorities are asked to provide comparisons with the average for their class of authority, and with other authorities chosen by the authority as having similar characteristics (Department of the Environment, 1981).

Appendix 9.8 presents a list of comparative statistics as produced in the above-mentioned code of practice, and Appendix 9.9 presents an example of financial statistics prepared by Dudley District Council for the year 1982/83. This example illustrates how the mentioned authorities compares its spending per head of population with other metropolitan districts.

The above-mentioned code of practice recognises that the performance statistics listed need to be interpreted with care, and often provide only a starting point for analysis of relative performance. Also, the statistics measure different aspects of performance, including the cost, scale and quality of service, the demand for service, a degree of client satisfaction, relative efficiency, and so on. It should be borne in mind that most of the list relates to the cost and scale of service, which is a somewhat limited aspect of performance.

Other techniques were mentioned in other category, as the above table shows, including, community analysis; achievement indicators; manpower statistics and measures of output units; individual item reporting; cost investigation; performance review; and various statistical controls.

As for the distribution of how important each of the listed techniques was considered by the responding authorities to be for the purposes of measuring the output of their authorities, see Appendix 9.10.

9.10 Changes in the Accounting and Auditing Procedures

The vast majority of the responding authorities (127), or 72 per cent, have said that they have not introduced changes in their accounting and auditing procedures as a result of the introduction of the newer developments in public budgeting, e.g. PPBS, corporate planning and ZBB, mentioned in Chapters 3 and 6. There were, however, 50 authorities (28%) which did introduce such changes because of the above-mentioned developments.

To find out if there was an association between the introduction of such changes in the accounting and auditing procedures and the type of authorities Table 9.15 is provided below to illustrate this relationship.

Table 9.15

Has your authority introduced any changes in the accounting and auditing procedures as a result of the introduction of the newer developments in public budgeting (0.18.1)

Type of authorities	County Councils		District Councils		London Authorities		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	8	32.0	38	27.9	4	25.0	50	28.2
No	17	68.0	98	72.1	12	75.0	127	71.8
Total	25	14.1	136	76.8	16	9.1	177	100

The chi square value of the above table was 0.26 with 2 degrees of freedom, which is not statistically significant at the 5 per cent level. One has, therefore, to accept the null hypothesis of independence between the type of authority and the introduction of changes in the accounting and auditing procedures as a result of the introduction of the newer systems mentioned above. It seems that there is no association between these two variables.

The survey has shown that, of the 127 authorities which did not introduce any changes in the accounting and auditing procedures as a direct result of the introduction of the newer developments in public budgeting, 122 authorities (96%) have introduced such changes for other reasons. A total of 45 authorities out of the above-mentioned number have introduced a new accounting and information system to satisfy the need for more local control and information and, also, to respond to the increasing requirement of central government as one respondent put it:

"Changes have been made in our accounting system to bring more control information and to accommodate national developments."

Another respondent's view was expressed in the following comment:

"A new financial information system was introduced incorporating a data base system and short code structure. This has enabled a more consistent

approach to be adopted between services in the allocation of expenditure and aggregation for statistical purposes, etc."

There was another group of authorities (37), which indicated that they introduced general improvements in their accounting system to cope with the new legislation (e.g. DLO's ⁽¹⁾, capital control) and tightening up of procedures with regard to the monitoring of progress on capital projects during contract stages as well as to improve existing methods of budgeting and financial control.

Seventy-two authorities according to the survey have indicated that they established a new computerised accounting system. Such action indicates, no doubt, both that responsibilities of the local authority have increased and the need for more information resulting in the increased use of the computer technology stimulated to a large extent by the computer industry itself with ICL instrumental in the development of Local Authority Financial Information System (Tomkins, 1983). In addition, some authorities (70) have realised the importance of using cost and management techniques to achieve the required efficiency. The mere reporting of the events in the traditional historical accounts was no longer considered adequate; there is a lot to be learned from the experience of the private sector in this very important area, by

(1) Direct labour organisations are works or departments run by local authorities to provide highway maintenance, maintenance of buildings, and construction of some buildings and works rather than buying in such services on a contractual basis from the private sector. The new legislation required direct labour organisations to earn a required rate of return on investment in order to be as 'competitive' as the private sector. Contracts or jobs over certain limits had to be subject to competition with private sector tenders.

using more cost and management accounting techniques.

Furthermore, there was another group of authorities (31) which have indicated that they introduced some effectiveness auditing according to the CIPFA's guidance. This finding seems to reflect the fact that local authorities were becoming aware that they alone are responsible for the efficient use of the resources entrusted to them. Decision-making process, management information systems, budgeting and control systems, personnel management policies, performance review arrangements designed to ensure efficiency are common place particularly in the large authorities. In practice, economy, efficiency and effectiveness or, as it is often called, value for money, is a concept which should involve members and staff at all levels (CIPFA, 1981). Finally, there were 18 authorities which have indicated using accrual accounting rather than cash accounting for some purposes, although they did not indicate the exact use. It seems that, this low usage of accrual accounting reflects the fact that local government has for a long time mostly adopted income and expenditure accounting with limited similarity to commercial practice and the "matching principle". It is most probable that the 'going concern' concept is of only theoretical relevance to local authorities except, possibly, in the area of direct works undertakings.

Other changes made, mentioned by six authorities, included integrating budgeting and accounting systems, reports to various levels of management, and adoption of computer audit and ratepayers accounts.

As for how important the responding authorities considered each of the above mentioned changes made in their accounting and auditing systems, see Appendix 9.11.

9.11 Concluding Remarks

In this chapter and the previous two chapters, a questionnaire which had been sent to English local authorities concerning the state and developments of their budgetary techniques and related management systems, in order to obtain a clearer picture of existing practice of the mentioned management systems, was reported and analysed in the light of some specific hypotheses.

Conclusions related to each aspect have briefly been drawn, analysed and discussed in separate sub-sections, and little purpose would be served by repeating here the detailed findings. It is, however, intended to devote space in the next and final chapter, which is devoted to the general summing up and conclusions of the whole work, to bring together the general state of the art discussed in the earlier chapters, and the main findings and conclusions arising from the survey.

CHAPTER 10

SUMMARY AND CONCLUSIONS

This thesis is concerned with the state of government budgetary techniques and related management systems, as well as the role of the budget as an important device for resource allocation in both central and local government. The initial endeavour was to investigate and examine the basic theoretical background of the government role in the national economy, and the part played by the budget as a resource-allocation instrument. This examination was supported by a questionnaire survey of English local authorities. The main purpose was to seek the opinion and views of the people who are actually involved in the budgeting process and to determine their attitudes toward the state of the budgetary procedures employed, as well as the recent developments in these procedures and the need for an improved system of budgeting for better resource allocation.

It seems widely accepted that as government activities grow, the role of the government becomes more important. The evidence of such increasing importance can be seen in most countries through the unprecedented increase in government expenditure in recent years. For instance, government spending in most developed countries now accounts for between 20 and 40 per cent of total consumption. In the UK, according to the Central Statistical Office (1980), central government expenditure accounted for some 36 per cent of GNP. In France the state is the most important economic factor. Its budget accounts for about 20 per cent of the national product. It is also the country's largest employer where over two million people are working

in government organisations (Euroguide, 1977/78). In Egypt, as a less developed country, central government expenditure accounts for around 27 per cent of GNP (Mohammed, 1978). According to the Journal of the Egyptian-British Chamber of Commerce (February, 1983) total government spending, including public sector, was estimated in 1982/83 budget at 14.6bn Egyptian pounds against 13.2 in 1981/82.

As a result, the need to improve the traditional approach of budgeting to cope with the new government responsibilities in order to obtain better value for money, was recognised in many countries. The extent of budgetary reform, of course, has varied from one country to another depending on many factors. The common view for those countries who recognised such need has been the limited value of the traditional budget as a control device with its limited emphasis on the planning and management aspects which are very essential for an effective and efficient budgetary system. Accordingly, attempts have been made to improve the state of the budgetary process in some developed countries such as the USA and the UK, by developing new ideas to replace the traditional approach, or at least to improve its performance. The most obvious developments have been performance budgeting in the 1950s, PPBS in the 1960s, and ZBB in the 1970s in the USA. In the UK, it was the PESC system and CPRS in the 1960s, and corporate planning and the cash limit system in the 1970s, and recently cash planning.

According to the performance budgeting approach, the organisation should emphasise the efficiency aspects of given resources, i.e. inputs. Within a PPB context, on the other hand, more emphasis is directed

toward the output which is sought to be achieved, i.e. effectiveness. PPBS also considers the efficiency aspects to achieve the two fundamental aims of an organisation, that is effectiveness and efficiency (Lee and Johnson, 1977).

Obviously, a number of difficulties and obstacles could be expected from the implementation of a PPB system. A major problem has been the lack of a specific measure of performance in government departments. The successful implementation of the system in the US Department of Defense in the early 1960s suggests that this sophisticated system could improve the quality of decisions in government departments. Unfortunately, the new and promising budgetary system did not achieve the same pristine accomplishment in US civilian agencies. This was due to three major factors: the characteristics of the American system of government; the way in which the system was introduced; and the difficulty of applying the analytical techniques to government programmes, perhaps mainly because of a shortage of skilled personnel. As a result, PPBS was officially terminated by the US federal government in 1971.

Following the unsuccessful experience with PPBS, several US government departments started to look for less sophisticated approaches to improve their budgetary process, which could suit their own special circumstances and capabilities. Among these attempts which showed some promising results were management by objectives (MBO) and zero-base budgeting (ZBB). As for MBO, it is not a complete system for managing, rather it is an instrument with basic elements of planning, co-ordination and appraisal of performance, used primarily for short-term (tactical)

planning of operations. It can be said that MBO like performance budgeting is concerned with efficiency and can be used with greatest effectiveness only when it is integrated with and supported by all other tools available in the arena of public decision-making processes.

As regards ZBB, it seems that this technique could make a positive contribution toward the better use of resources. Perhaps the most difficult problem in implementing this approach is the lack of time to go through the enormous amount of material and information generated throughout the process, and the cost of analysis and paperwork. These difficulties, however, can be reduced by adapting a limited approach to ZBB applied to some selective areas and services, and not necessarily to the whole organisation, or, to each department in turn over, say, a five-years cycle.

As for the experience of the British central government, a literature review was carried out to investigate the state of its budgetary procedures and related financial control techniques employed. This review suggested that the last two or three decades have witnessed a tremendous change and development in the field of the government decision-making process. There was a widespread dissatisfaction with the way that public expenditure was planned, managed, controlled and monitored. In response to such dissatisfaction the PESC system was developed in 1961 to improve expenditure decisions. It is a way to avoid the traditional practice in many countries of allocating available resources; that is to say, the projection of the next year's expenditure on the basis of the previous year's expenditure by increasing

or decreasing the previous year's amount by an equal percentage to all departments. The system was strengthened by introducing the CPRS in 1971, as well as the FIS in 1974 and the cash limits system in 1976. Under cash limits departments and other agencies could no longer expect to receive, as they had done in the past, supplementary provision beyond their estimates to compensate for rising prices. The expenditure information system has been improved; 'profiles' of expenditure outturn are drawn up for all voted items and some other expenditure. The profiles are compared with monthly expenditure returns so that deviations from the expected course can be quickly identified. The monitoring system also produces frequent returns during the financial year showing the effect of pay and price increases upon the outturn of expenditure (Bourn, 1979).

From 1982-83, a major change was introduced to the basis of the PESC itself, and its relation to the cash limit system. As from the above-mentioned year the survey has been conducted in cash terms for all the years it covers. The government appears to regard this change as highly significant. The use of cash represents a change in the price base, not in the objectives of the system. The British experience in this respect offers a lot of lessons to be learned.

A literature review together with an empirical investigation was carried out for the state and developments of budgetary techniques and related management systems of English local authorities. The study suggests that the local authority is in a difficult position because it is under pressure from two directions, the central government

and the local community. The central government has been, in recent years, the main source of funds for local authorities. These funds can be increased or decreased according to the policy of the central government. Thus, if Whitehall decides to decrease its share in local government expenditure, as is happening these days, the local authority has either to raise its own rates or reduce its services to the community. The decision to choose between these two alternatives is very difficult indeed.

Although the central government has no legal power to stop the local authority from increasing its current expenditure, because the latter can raise its rates to whatever level it desires, it can exhort the local authority to control its expenditure through, for instance, the RSG system and cash limits control. Also, the central government does have the power to control capital expenditure. Although local authorities have the power to increase the rates, many are often usually reluctant to do so because of a variety of reasons, among these is the political consideration.

Thus the local authority, which is always under pressure to provide a better service for the community, has to seek ways in which to improve its efficiency and effectiveness. One obvious and significant area of improvement in the budgetary process through which the resources are allocated. Therefore, attempts have been made to improve the budgetary system in some English local authorities. The approach, of course, has varied from one authority to another, but the aim has been always the same; to achieve more effective budgetary procedures.

It seems generally accepted that for administrative purposes, such as controlling expenditure, providing statistical evidence and calculating the appropriate rates, the traditional budget has been sufficient; even if for allocation decisions it is not an effective tool. Thus, it is not wise to abolish the traditional budget completely, rather much of it should be retained for administrative purposes.

It seems well known that a basic deficiency in the financial system in local government is the missing link between budgeting and planning. Traditionally, more emphasis has been placed on the control aspects, with little attention to the financial planning aspects. At the present time more concern is being given to this essential process. However, in some cases such attention has been over-emphasised at the expense of performing the necessary financial control. Therefore, each of these functions should be performed with the maximum co-ordination between the people concerned. For that reason it has been suggested that the department of finance in local authorities might be divided into two major units, both of which would be under the director of the department (Earwicker, 1979). The first would be responsible for the traditional accountability and control function. The second unit would be responsible for collecting, organising, analysing and presenting the relevant and required financial information and data which could include various financial plans to assist both officers and members in making their decisions. Of course, these two units should work closely together and be in coordination and harmony under the guidance of supervision of the director of finance. By

establishing these two separate but closely related units the two essential functions would be carried out on an equal basis.

Another very important aspect, is the monitoring process where the local authority needs to monitor performance against a specific goal, but the absence of defined long-term or medium-term objectives make such a function difficult to perform. Perhaps one of the main reasons for that is the nature of the local authority where the policy-makers are the members who are elected by the local people. Politicians are usually reluctant to commit themselves to long-term objectives for obvious reasons. They have to respond to different groupings of local power interests. Obviously, the more powerful group will tend to get better services than the less powerful lobby.

Corporate planning and programme budgeting as applied by English local authorities introduce several new problems associated with the system as a whole. These, which are common to any organisation that implements such a system, are often compounded by the problems resulting from the nature and structure of local government in this country.

The problems related to these types of approaches, i.e. corporate planning and programme budgeting, perhaps include the need to measure output and to relate it to input, with consideration of all the possible courses of action, which requires some advanced analytical techniques. This important feature of a PPBS and to a lesser extent a corporate planning approach, is very difficult to carry out due to the normal shortage of skills in government agencies on the one hand, and the

considerable difficulty in measuring services output in these agencies, on the other. Moreover, these management systems require the identification of the organisation's long-term aims and objectives. In a government organisation it seems usually difficult to identify its objectives, specifically and on a long-term basis, because of the nature of government activities, as well as the effect of political constraints (Greenwood et al., 1980).

In addition to those difficulties referred to above and which are universally encountered, the administrative system of the British local authority produces more specific problems which reduce the effectiveness of the corporate planning approach and the PPBS. For instance, the existence of dualism in the power hierarchy of the local authority, members and officers, has resulted in some problems in the local authorities, such as, departmental officers are partly responsible to the Chief Executive but also to the members as well. Such sharing of responsibility might create some confrontation and affect the quality of work. Moreover, as mentioned earlier, members as politicians are usually reluctant to commit themselves to long-term objectives which are very essential for planning and monitoring the affairs of the authority.

Furthermore, local authorities lack the required motivation which is necessary to attract talented and qualified personnel to work in local government (Bourn, 1979). Such skills are needed to carry out the responsibilities of taking the initiative and making sensitive and difficult decisions. The local authority needs the sort of people who are prepared and able to deal with the politicians, who in fact have the final word in directing the affairs of the authority

and in many cases are composed of so many different views and beliefs. This political power changes from time to time and associated with it will be the inevitable policy changes. The changing of political control from, for instance, Conservative to Labour, or the Alliance, might bring with it dramatic changes in the policies which are already being carried out by the officers.

It is appropriate to mention here that external assistance in the form of consultancy firms are usually ineffective because people from outside local government are not familiar with its nature and environment. Thus, their contributions have been in most cases of limited importance. A good example was the case of the City of Liverpool which sought the advice of a consultancy firm but the recommendations were found to be unworkable (Eddison, 1975; Boum, 1979).

Another limitation in the local government system is the fact that the local authority is set up to achieve specific goals. As one respondent to the questionnaire put it: "the local authority is not constructed as a thinking organisation but as a doing organisation". This non-thinking character must be recognised in order to evaluate the extent of power and activities that authorities exercise.

The questionnaire completed by the respondents included interesting and valuable information, as well as some significant points which could be very valuable to the local authorities in England, in particular, and within the United Kingdom in general. The following points summarise the important findings of the questionnaire's analysis:

Traditional budgetary procedures in local authorities are no longer sufficient for an effective and efficient allocation of resources. The annual "traditional budget" within a corporate planning framework is an integrated part of overall policy and strategy in most authorities. Budgeting is not a separate activity from the planning process: indeed it is a significant part of the corporate planning system.

The use of traditional budgets in local authorities is considered necessary to achieve essential financial control (accountability).

A significant number of local authorities in England have introduced either minor or major changes in their budgetary procedures within the last decade. According to the survey 68 per cent of the respondents did reform their budgetary procedures and related management systems.

The vast majority of English local authorities tend to doubt the practical value of PPBS and seem to prefer a corporate planning approach. This suggests that PPBS is no longer under consideration by the majority of the authorities.

A corporate planning approach has the greatest chance of success in the management planning and control process in English local authorities compared with PPBS as well as ZBB approach.

A number of authorities have recognised the value of adopting ZBB techniques, and some of them (31) have adopted a modified budgeting system based on ZBB principles. These authorities seem to believe in ZBB as an approach more suitable to a climate of restraint and cutback than any other budgeting systems, which may be relevant 'in' or 'during' the current economic situation (i.e. central government planning is relatively short-term and long-term possibilities are subject to change, due to uncertainties about the national economy as a whole).

The majority of the respondents believe that PPBS and the corporate planning approach are effective means for improving the quality of allocation decisions generally in public-sector organisations.

All responding authorities have expressed their belief in the value of budgetary procedures as a means of improving the decision-making process.

Most of the responding authorities (73%) have not been affected directly by the newer developments in public budgeting and financial control techniques, particularly the PPBS and the corporate planning approach. A number of reasons were given, among them including the problem of authorities being too small, shortages of staff, and the practical difficulties of applying such techniques.

A large majority of local authorities (81%), do not have a separate forward planning unit. This seems to reflect the attitude of local authorities in England, consonant with the traditional practice of planning.

The data presented confirms that the length of the period over which English local authorities engage in long-term planning for capital expenditure varies from one authority to another, however, the importance of long-term planning, particularly for capital expenditure, has been realised by the vast majority of the respondents.

It appears that the vast majority of local authorities in England tend to doubt the value of long-term planning for revenue expenditure. A number of reasons were given, among them being the uncertainty over the limit of expenditure which central government will provide and the difficulty in assessing the future attitude of central government concerning its contribution to the authority's revenue; long-term planning is mainly relevant only to capital expenditure, and medium to long-term planning of revenue expenditure is not necessary.

The analysis suggests that the current economic situation requires local authorities in general to give priority to a total re-appraisal of their financial planning techniques and the aim should be to introduce a technique or method of planning which takes into consideration the economic uncertainties, provides elected members with the mechanisms for assessing the financial effect of policy options, ensures a continuing review of existing expenditure policies, pays the same attention to sources of income as to channels of expenditures, and minimises the need for short-term expenditure decisions which simply reverse previous policy decisions.

A significant number of the respondents have recognised the importance of measuring actual results against estimates of long-term plans prepared in previous years for the purposes of improving and formulating long-term plans. However, there were some authorities which appear still to consider the aim of a monitoring process to be mainly for the achievement of financial control over revenue and expenditure.

Our survey confirms that, the most dominant users of budget information within local authorities are service managers and policy-makers. This reflects the fact that budgeting and planning are closely interlinked. Meanwhile the public and press were given an advanced position in the ranking order of importance for the users of budget information: this seems to support the idea that English local authorities are becoming more and more aware of the importance of public accountability.

The data presented suggests that the most important functions of the annual budgets in local authorities are to enable the rate or precept to be fixed, and to provide the base for control over expenditure and income as well as to assist in policy-making.

The vast majority of the respondents do not have a medium-term budget. Only 33 authorities out of 177 responding authorities have reported the adoption of such a budget. The analysis suggests that the most important function of this budget is for elected members as an aid to making policy-decisions.

As expected, the vast majority of the responding authorities (84%), have reported that the Treasurer or the Director of Finance

in conjunction with the Chief Executive, Chief Officers and senior members set the overall framework and the concepts for budget preparation and were responsible for co-ordinating the task.

Almost all authorities considered the policy and resource committee, and the Treasurer or Director of Finance as having the most influential powers on the final consideration and decisions on the budgets.

As expected, the majority of the responding authorities (71%) have adopted in estimating and preparing budgets, a partly centralised system with finance departments furnishing basic data and criteria for preparation, and partly decentralised system, with spending departments producing forward projections.

The vast majority of the respondents agree upon the importance of budgetary control. However, in their order of importance, budgetary control during the preparation of budgets (exerted by the acceptance of overall resource constraints) was considered as the most important aspect of budgetary control. Whereas, the control during outturn, which is done in order to monitor actual activity against planned position, was in second place.

A large number of authorities have adopted written regulations for budgetary control purposes regarding the following items: spending within delegated powers to committees, supplementary estimates, capital schemes, control of spending, revenue virement, capital virement, and manpower numbers. But as regards unspent balances (estimates), only 25 per cent of the respondents have adopted written regulations for this item.

The vast majority of local authorities, or 81 per cent, have recognised the influence of the cash limit system on the planning and operation of their budgetary system. However, only 53 authorities have considered such influence to be "to a very great extent", with 68 authorities "to a considerable extent" and 22 authorities "to some extent".

The existence of accurate and relevant information and data sources were recognised by the majority of the authorities as requirements for developing and implementing a corporate planning system and for the operation of a sound budgetary system.

The vast majority of local authorities (127) disagree that the introduction of any changes in their accounting and auditing systems were a result of the introduction of newer budgetary techniques and related management systems, such as PPBS and corporate planning as well as ZBB. The data suggests that there were changes made in the accounting and auditing systems of these authorities, but that these were made for other reasons such as, to satisfy the need for more local control, response to the increasing requirements of central government, compliance with the new legislation for DLO's, improvement of existing methods of budgeting and control, and tightening of the procedures of the monitoring process. Only 50 authorities did introduce the above-mentioned changes as a result of the introduction of the newer systems of budgeting.

The vast majority of responding authorities have considered financial and non-financial statistics as quite important techniques to use for the purposes of measuring the output of the authority.

Meanwhile, some authorities have considered cost-effectiveness analysis technique as of some importance. On the other hand they seem to tend to doubt the value of cost-benefit analysis of on-going revenue expenditure as a technique for measuring the output of the authority.

Closing Remarks

In the light of the findings of this study, it seems fair to say that the general interest in the study of management and control over the last two or three decades has encouraged the adoption of systems of planning-programming-budgeting systems, output budgeting and the introduction of corporate planning approach, as well as the introduction of planning staffs and analytical capabilities in a variety of forms, in both national and local government in many countries, and particularly the developed nations. It seems true that there are few cases where the above-mentioned systems have been as fully adopted as their inventors proposed, and it is rare to find them remaining in their original form for more than a few years. This is partly because they are expensive in skilled staff and other resources and, in spite of increases in public sector employment, the means to implement them fully seem not to have been available (Bourn, 1979).

The experience of implementing these systems suggests that they are 'value free', and should be able to accommodate changing events and new policies. But in fact they reflect particular assumptions and policies and, when these aspects change, the mechanics of the system must change as well. If they do not, the system

is likely to fall into at least partial disuse.

It is worth noting that the choice of a budgetary technique is really a matter of who uses it, and for what purposes. This is aptly epitomised in the inverse relationship between hierarchical structure and the required amount of details. At the apex of the hierarchy in a government is the legislature; and at the base, the user department or agency. In the final analysis, the budget must never be an end in itself. The UK Institute of Public Administration put it very clearly (1959):

"The ultimate test is whether the budget enables an organisation to carry out its functions more effectively and efficiently than it could without it. Hence it must be designed and adapted as required to suit the needs of those whom it is intended to serve."

Finally, the degree of success and effectiveness of any budgetary approach depends on many factors, internal and external. A sound and careful preparation taking all factors into account and benefiting from other experiences should contribute greatly to the success of achieving the aim of more effective use of scarce resources to obtain value for money.

It is hoped that the information obtained from the review of the literature and from the empirical survey in this thesis would be of some help in assisting future attempts to develop new budgetary ideas.

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Appendix 4.1

Programme Budgeting (PPBS) in Government Departments

The government policy in Britain has always been to encourage all departments to find and adopt improved methods to make better allocation decisions among the departments in the light of their abilities and circumstances. At least three departments, however, had introduced some aspects of PPBS to their services. They are the Ministry of Defence, the Department of Education and the Home Office. The experience of the Home Office has not been reviewed due to the lack of available information. Therefore, in the following subsections we are going to examine and discuss the experience of the Ministry of Defence and the Department of Education and Science with the PPBS.

1. The Ministry of Defence

The Ministry of Defence was the first government department to develop a system of programme budgeting, in 1965. The new system, known as Functional Costing, was introduced as part of organisational arrangements started in 1964 to improve the quality of expenditure decisions on a long-term basis (Hartley, 1974). The shortcomings of traditional budgets (input budgets) were realised by the Ministry of Defence a long time ago. These types of budgets do not give consideration to costs, performance and output. Also, the use of one-year periods resulted in a limited value of the budget because the total costs of present decisions are not considered. In defence, many important projects take ten years or

more to be completed, and in a traditional budget context the likely implementations of these projects cannot be assessed. To be successful, a project requires analysis and consideration of total costs involved throughout its development. This will make the picture more clear to the decision-maker. These major deficiencies in a traditional budget have created an increasing demand to look for a better system of budget in the Ministry of Defence.

Although the proposed budget for defence was not perfect it had some good features to make it a much better source of information to the decision-maker than the traditional budget. This budgetary process has five basic features: first, all defence objectives and goals in the short, medium and long-term are clearly defined. Second, all expenditures are classified by programmes and sub-programmes. A programme structure would mean all activities are grouped in major programmes. Each major programme consists of groups of activities that contribute to a particular main objective or set of objectives. Third, total costs of each programme are determined. Fourth, consideration is given to as many as possible alternative ways of achieving each programme and selecting the most effective with the least costs. Finally, the planning period has been extended to ten years to consider all future implications in the next ten years for each programme (Hartley, 1974).

The functional-costing system was supported by analytical techniques, such as cost-effectiveness analysis, to provide additional

and more-accurate information on costs of various types of weapons and their effectiveness in achieving given objectives. However, "no attempt is made to place a monetary value on the measure of defence effectiveness, the aim being to select the least-cost method of destroying a target or protecting a city or military installation" (Hartley, 1974).

According to Hartley (1974) and Bridgeman (1973), the experience of the Ministry of Defence with the PPBS was, in general, considered to be successful. Basically, its value was found in its contribution to the improvement of the quality of defence decisions which would result in better use of resources. Naturally, the system had its limitations and difficulties. The obvious ones were the difficulty to relate some programmes to objectives and the measurement of outputs.

2. The Department of Education and Science

Apart from the experience of the USA with PPBS there were three main reasons behind the growing interest of the UK civil departments to use PPBS as a tool to improve resource allocation. First, the introduction of the PESC system had encouraged individual departments to look for better planning techniques in order to prepare the department's estimates in a programme basis for the forward years according to regulations and procedures required by the PESC system. As a result, departments had been trying to develop and apply new methods and techniques to produce more and better information to be used in the process of preparing the annual estimates. Second, the

success in the Ministry of Defence had attracted the attention of the other departments to consider the introduction of a similar system. Third, the substantial increase in expenditure in almost all departments has led to the search for better ways and techniques to improve the use of resources. The officials of the Treasury had preferred a step by step procedure and decided to advise departments to carry out a feasibility study on the PPBS.

Thus, the Treasury carried out feasibility studies, one for the Department of Education and Science, and the other for the Home Office. They were the first of their kind to test the potential applications of PPBS in civil departments. The study for the Department of Education and Science was published in 1970 as an Educational Planning Paper. It included the proposed output budgeting for the department (Education Planning Paper, 1970).

The proposed system, which covered all expenditure on education by central government and local authorities, classified the activities of the department into three major blocks; education, research and cultural and recreational activities. Each block was divided into major and sub-programmes. Such classification was based on the three main objectives which the department seeks to accomplish. These objectives are:

1. to meet the needs of the community for education, including both the individual's need and desire for it and the requirements of the community for educated manpower;

2. to increase human knowledge, either so that it may be applied sooner or later, or to improve the intellectual and cultural environment, or both;
3. to enrich the quality of people's cultural and recreational activities and to increase opportunities for such activities (Education Planning Paper, 1970).

The first objective is achieved through education programmes, the second through research programmes and the third through cultural and recreational activities. The education block, for example, was divided into seven programmes. This classification was not based on objectives; rather, an age-group basis was adopted. Accordingly the following programmes were identified as major programmes in the education block (Education Planning Paper, 1970):

- a. Compulsory education
- b. Nursery education
- c. Education of the 15 years old
- d. Education of the 16-19 years old
- e. Higher education (below first degree level)
- f. Higher education (first degree level)
- g. Postgraduate education.

The three important components of output budgeting were described by the study as :

- "1. the allocation of expenditure to programmes which are as closely identified as is practicable with objectives.

2. The systematic review of programmes on a regular basis. This includes the questioning of the continued validity of the objectives as well as consideration of alternative ways of achieving them and of the progress so far made.
3. Special studies, either to establish the value for money of alternative ways of achieving the given objectives, or to evaluate the progress made towards achieving particular objectives if this information is not available on a regular basis" (Education Planning Paper, 1970).

The following diagram summarises the steps in setting up a programme budget (element (1) above) (Education Planning Paper, 1970). In education, the study had gone through 1-5 and part of step 6 while in both research and cultural and recreational activities steps 1 to 4 have been covered and part of step 5 (Education Planning Paper, 1970).

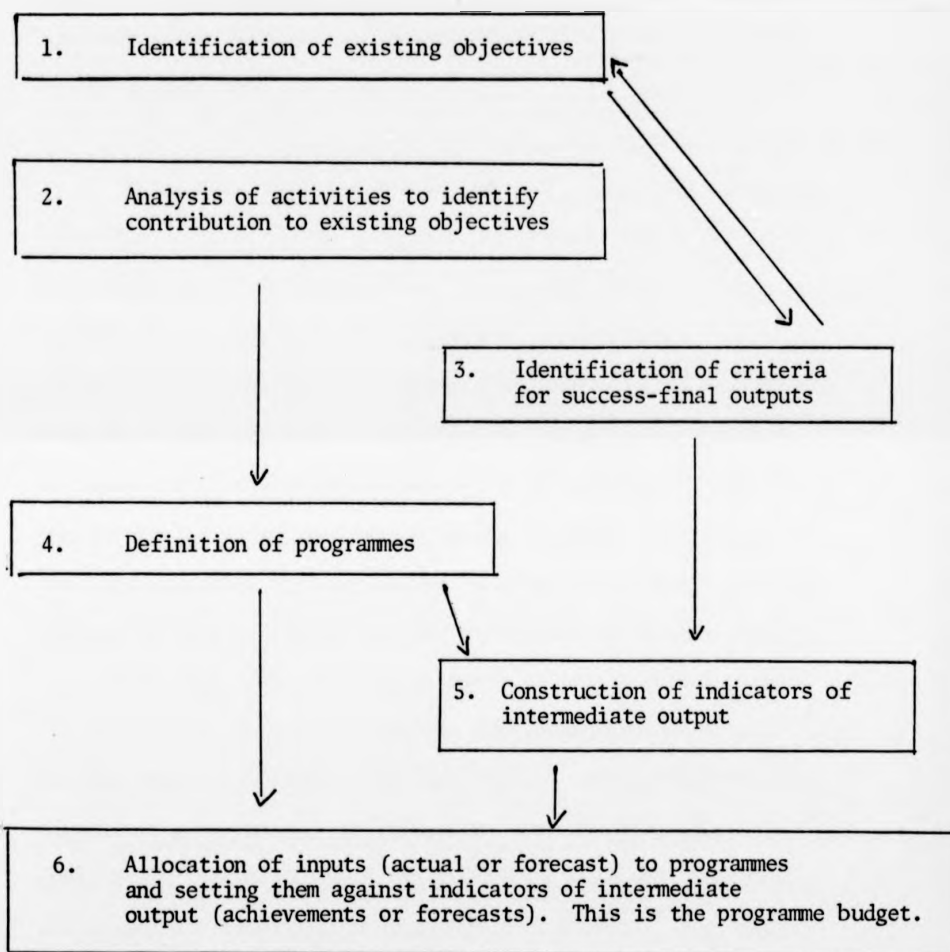
The main objective of introducing PPBS in the Department of Education was to improve the planning function to make better use of resources. As Brierly (1973) has pointed out, "the programme budgeting system for education has been designed as an instrument for planning, not for management, and the department's use of it would have to take account of the balance of responsibilities among its partners in the education service." The development of procedures and methods to carry out the plans set up by the department is the responsibility of local education authorities and other bodies.

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The steps in setting up a programme budget at
the Department of Education.



Source: Department of Education and Science, Output Budgeting for the Department of Education and Science, Education Planning Paper No. 1, London, HMSO, 1970.

The study had emphasised the fact that output budgeting does not attempt to replace judgement; but it can affect the general approach to decision-making and it can provide a better factual basis for judgement.

After this brief examination of PPBS in the Department of Education, we turn now to discuss the benefits from education and the difficulty of measuring them. In general, benefits from education can be classified into quantifiable and unquantifiable. The former is the total income a person will earn after his graduation through his working life. This kind of benefit is not difficult to calculate. The latter includes the indirect benefit either to the person himself, e.g. the increasing knowledge of the person which would certainly be reflected in a better thinking, attitudes and way of life to himself and his children; or to the community as a whole, e.g. less crime as a result of more educated people. In addition, in developing nations, education programmes will result in more national graduates who will replace foreign employees and experts to carry out public and private activities. This national goal is usually one of the first priorities of every developing nation and the value of its achievement in physical, i.e. money, terms is very difficult to measure.

In the USA attempts have been made to measure the benefits of education in money terms. Such attempts, however, did not consider all benefits of education, that is quantifiable as well as unquantifiable. The reason of course, is the difficulty in measuring the latter type of benefits. The problem of output measurement has been recognised

by the feasibility study and has been mentioned several times in the report of the Department of Education (1970):

- "p.4 in many, if not all areas of activity
the measurement of final output presents
formidable conceptual and practical difficulties.
- p.19 a major difficulty in measuring output and
relating it to expenditure in the Department's
field is that ultimate benefits usually
accrue after a long time-lag
- p.96 in most fields of Government's activity, the
assessment of final output poses severe problems,
progress in solving which will be slow and
difficult"

In spite of this deficiency in the system, the study argued that programme budgeting in the department was a valuable tool to the planners because "by directing attention to final objectives even where success in achieving them cannot be measured, it can suggest improved methods of assessing the success of a programme of expenditure; that it provides a framework for assessing systematically how resources are being used; and that it crosses institutional boundaries, so illuminating policy choices which might otherwise have been observed" (Education Planning Paper, 1970).

Appendix 6.1

Extract from the Programme Budget of the
Greater London Council, 1973/74 and projections
to 1978/79.

A. Art and Recreation Programme Group

Objective: To create a richer environment by providing, improving and encouraging investment and participation in the opportunities available for the use of leisure time.

(£'000)

Budget		Budget	Projections			
1972/73		1973/74	74/75	75/76	76/77	77/78
		CAPITAL				
Expenditure						
1,225	A.1 Recreation	1,358	1,780	1,715	1,670	1,810
1,850	A.2 Culture	1,377	940	170	20	150
125	A.3 Enrichment of the Environment	185	235	235	235	235
3,200		2,920	2,955	2,120	1,925	2,195
Loans						
250	A.1 Recreation	250	250	250	250	250
REVENUE						
Expenditure						
5,978	A.1 Recreation	6,580	7,075	7,445	7,840	8,235
2,591	A.2 Culture	3,001	3,375	3,565	3,590	3,645
1,004	A.3 Enrichment of the Environment	1,351	1,365	1,365	1,410	1,435
9,573		10,932	11,815	12,375	12,840	13,315
Income						
937	A.1 Recreation	937	965	985	1,010	1,020
764	A.2 Culture	811	760	810	810	810
204	A.3 Enrichment of the Environment	193	200	205	205	205
1,905		1,941	1,925	2,000	2,025	2,035

Extract from the Programme Budget (Cont'd)

Budget		Budget		Projections		
1972/73		1973/74	74/75	75/76	76/77	77/78
		CAPITAL				
Net Expenditure		(£'000)				
5,041	A.1 Recreation	5,643	6,110	6,460	6,830	7,215
1,827	A.2 Culture	2,190	2,615	2,755	2,780	2,835
800	A.3 Enrichment of the Environment	<u>1,158</u>	<u>1,165</u>	<u>1,185</u>	<u>1,205</u>	<u>1,230</u>
<u>7,668</u>		<u>8,991</u>	<u>9,890</u>	<u>10,400</u>	<u>10,815</u>	<u>11,280</u>
Manpower (Numbers)						
490	A.P.T.C. Staff	571	598	595	593	602
<u>1,437</u>	Other Staff	<u>1,457</u>	<u>1,467</u>	<u>1,469</u>	<u>1,458</u>	<u>1,464</u>
<u>1,927</u>		<u>2,028</u>	<u>2,065</u>	<u>2,064</u>	<u>2,051</u>	<u>2,066</u>

A.1 Recreation

Objective: To provide opportunities for, and encourage participation in recreation pursuits.

(£'000)

Budget		Budget		Projections		
1972/73		1973/74	74/75	75/76	76/77	77/78
		CAPITAL				
Expenditure						
1,100	A.11 Parks and Open spaces	1,908	1,320	1,225	1,270	1,380
-	A.12 Alexandra Palace	25	-	-	-	-
-	A.13 Crystal Palace	75	100	150	150	190
125	A.14 Special recreation and entertainment	<u>350</u>	<u>360</u>	<u>340</u>	<u>250</u>	<u>240</u>
<u>1,225</u>		<u>2,358</u>	<u>1,780</u>	<u>1,715</u>	<u>1,670</u>	<u>1,810</u>
Loans						
250	A.11 Parks and Open spaces	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>

Extract from the Programme Budget (Cont'd)

Budget 1972/73	Budget 1973/74 CAPITAL	74/75	Projections 75/76	76/77	77/78
(£'000)					

REVENUE

Expenditure

4,338	A.11 Parks and Open spaces	4,455	4,705	4,890	5,075	5,270
407	A.12 Alexandra Palace	500	500	500	500	500
29	A.13 Crystal Palace	40	55	60	65	70
	A.14 Special recreation					
797	and entertainment	875	930	945	955	980
37	Research	50	50	50	50	50
	General Services					
91	- Programme recharge	102	100	100	100	100
279	- Debt charges	558	735	900	1,095	1,265
<u>5,978</u>		<u>6,580</u>	<u>7,075</u>	<u>7,445</u>	<u>7,840</u>	<u>8,235</u>

Income

290	A.11 Parks and Open spaces	360	385	405	425	445
289	A.12 Alexandra Palace	342	345	345	345	335
38	A.13 Crystal Palace	36	35	35	35	35
	A.14 Special recreation					
320	and entertainment	199	200	200	205	205
<u>937</u>		<u>937</u>	<u>965</u>	<u>985</u>	<u>1,010</u>	<u>1,020</u>

Net Expenditure

4,048	A.11 Parks and Open spaces	4,095	4,320	4,485	4,650	4,825
118	A.12 Alexandra Palace	158	155	155	155	165
9	A.13 Crystal Palace	4	20	25	30	35
	A.14 Special recreation					
477	and entertainment	676	730	745	750	775
37	Research	50	50	50	50	50
91	General services	102	100	100	100	100
279	Debt charges	558	735	900	1,095	1,265
<u>5,059</u>		<u>5,643</u>	<u>6,110</u>	<u>6,460</u>	<u>6,830</u>	<u>7,215</u>

Manpower (Numbers)

1,446		1,463	1,488	1,483	1,470	1,482
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Extract from the Programme Budget (Cont'd)

Budget 1972/73	Budget 1973/74	74/75	Projections 75/76	76/77	77/78
	CAPITAL				
			(£'000)		

REVENUE

Expenditure

4,338	A.11 Parks and Open spaces	4,455	4,705	4,890	5,075	5,270
407	A.12 Alexandra Palace	500	500	500	500	500
29	A.13 Crystal Palace	40	55	60	65	70
	A.14 Special recreation and entertainment	875	930	945	955	980
797						
37	Research	50	50	50	50	50
	General Services					
91	- Programme recharge	102	100	100	100	100
279	- Debt charges	558	735	900	1,095	1,265
<u>5,978</u>		<u>6,580</u>	<u>7,075</u>	<u>7,445</u>	<u>7,840</u>	<u>8,235</u>

Income

290	A.11 Parks and Open spaces	360	385	405	425	445
289	A.12 Alexandra Palace	342	345	345	345	335
38	A.13 Crystal Palace	36	35	35	35	35
	A.14 Special recreation and entertainment	199	200	200	205	205
<u>320</u>		<u>199</u>	<u>200</u>	<u>200</u>	<u>205</u>	<u>205</u>
<u>937</u>		<u>937</u>	<u>965</u>	<u>985</u>	<u>1,010</u>	<u>1,020</u>

Net Expenditure

4,048	A.11 Parks and Open spaces	4,095	4,320	4,485	4,650	4,825
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	A.14 Special recreation and entertainment	676	730	745	750	775
477						
37	Research	50	50	50	50	50
91	General services	102	100	100	100	100
279	Debt charges	558	735	900	1,095	1,265
<u>5,059</u>		<u>5,643</u>	<u>6,110</u>	<u>6,460</u>	<u>6,830</u>	<u>7,215</u>

Manpower (Numbers)

1,446		1,463	1,488	1,483	1,470	1,482
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CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROLFE C. TOMLINSON
JOINT DIRECTORS



UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 (TELEX 31406)

25th November, 1981.

We are writing to ask for your help on a research project which is currently in progress at this Centre. Mr Tahseen B. Salem and I are engaged on research into Budgetary Control and Related Systems used in local authorities. In particular we are interested in the experience and views of local authorities regarding their use of techniques such as programme budgeting (PPBs), corporate planning and zero-based budgeting -- as well as traditional budgeting. We realise, of course, that not all authorities have used all these techniques, and that many authorities have used them only to a limited extent, but we do assume that all authorities are using at least traditional budgeting.

We have prepared and pilot-tested a questionnaire which we believe will enable us to obtain the information needed. We appreciate that you and your colleagues are busy men and that in today's circumstances resources available to you are severely constrained. For that reason we have constructed the questionnaire so that most parts of it can be answered quickly by ticking appropriate boxes, although supplementary comments can be written in as well, as desired. Could you please return the questionnaire even if you are unable to complete every part of it. If you feel that you would prefer to discuss the issues involved in person, then Mr Salem may well be able to arrange to visit your offices.

Copies of a concise report on the research findings will be made available to participating local authorities. The full detail of the research will be written up in a research thesis available to consult through inter-library loan. Parts of the research may be published in appropriate journals, such as the CIPFA's Public Finance and Accountancy.

Thank you for your help and co-operation.

Yours sincerely,

Tahseen Salem

John Perrin

P.S. As mentioned in Question 20 in the questionnaire, we would be grateful to receive copies of any documents or publications you may be agreeable to sending to us to help explain or illustrate your use of budgetary systems and information (e.g. specimen budgets, budget manuals, budget or planning systems papers, budget statements or reports on budget outturn prepared for authority members or the public, etc.).

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

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BUDGETARY CONTROL AND RELATED ACCOUNTING SYSTEMS SURVEY IN LOCAL AUTHORITIES.

- A. Authority Name:
- B. Authority Size (i.e. Population).
- C. Name and Official Designation of person completing this questionnaire.
- D. Total number of years spent with present Authority.
- E. In the event of the need for follow-up by the researcher, please state Name of Official who can be contacted if different from that stated in (C).
- F. If you would like to be interviewed at later stage, please tick this box ☐
- G. If you would like a copy of the overall findings of this study sent to you, please tick this box. ☐

General Notes:

- A. Most of the questions in this questionnaire can be answered by ticking (✓) the appropriate box against the answer(s) listed under the question.
- B. If it is difficult to determine precise answers to particular questions, please provide the best estimate you can, and if any of your answers and comments require more space than has been allowed for under the questions, please continue on the blank page opposite the relevant question and/or the spare page attached to the back of this questionnaire, referring in your answer to the question number(s).
- C. In the context of this questionnaire the term "organisation" refers to the authority you are currently working in.
- D. All individual answers and comments will be regarded as STRICTLY CONFIDENTIAL. However, will you please indicate if you are willing to allow the name of your authority to appear in a list of participants to this enquiry.
Yes ☐ No ☐
- E. Please return your completed questionnaire (and any comments) addressed PERSONAL to --

Mr. T.B.Salem,
c/o Professor J.R.Perrin,
University of Warwick,
COVENTRY CV4 7AL.

GLOSSARY

Traditional Budgeting System

Doing budgeting in much the same way that it always has been done, to recast the existing level of services and to consider any new items or improvement in services separately. It provides an incremental budget for the coming year.

An Integrated System of Corporate Planning

It is a comprehensive future-oriented and continuous process, seeking effective utilisation of available resources in order to fulfil the community's needs in both the short and long-term. It is implemented within a framework responsive to relevant change in the external and internal environment. Planning within a corporate approach means planning as an authority, not by departments working independently. Such planning requires one to look at and consider the authority's activities together, so as to identify priorities according to needs. It incorporates monitoring and control mechanisms.

Some Elements of Corporate Planning

This refers to using some elements of the corporate planning approach, but applied to a service or a department more as a separate unit, or else the approach used more widely, but only on a more limited basis and not fully integrated with the budgetary process.

An Integrated System of Programme Budgeting (PPBs)

It is a tool for budgetary forecasting and programming given a set of objectives and information at hand. PPBs emphasises the long-term benefits and costs of programmes, rather than the short-term. It is composed of programme budgeting and systems analysis, which typically involves cost-effectiveness studies. Programme budgeting basically places into common categories all activities (regardless of in which department they occur) necessary to accomplish some broad end or "programme" within an authority.

Some elements of Programme budgeting (PPBs)

Means using the PPBs approach for some particular programme(s), or using it only on a limited, ad hoc or intermittent basis, and not for the overall activities of the authority.

Zero-Base Budgeting System (ZBB)

It is a budgeting technique that is basically short-term and tactical in nature. It does not comprise a complete budgeting system, but rather is a tool to assist in budget information. It involves a total re-evaluation of budget estimates. All functions and operations must be reviewed from a zero starting point, and the activities for which an authority is responsible must be subjected to a through-going review and evaluation in which four questions will be asked:

1. What is the basic need for work being done?
2. What level(s) of operation is/are needed? There may be minimum; maximum and optimum as well as intermediate levels.
3. What costs will be incurred by operating at the various levels?
4. What benefits will be obtained at various levels of operation?

This review and evaluation must ignore the fact that many activities may be of long-standing. Similarly, the fact that many activities are statutory requirements should be ignored because the aim of ZBB is to obtain resource use which reflects current rather than past priorities. If a statutory activity is discovered to be of low priority then spending on it should be minimised until such time as the statutory requirement can be removed or modified.

Modified System based on Zero-Based Principles

This refers to using ZBB principles in conjunction with other principles of the traditional budgetary system approach, but stopping short of literally challenging all existing activities, or certainly those based on statutory requirements.

1. Please tick in the left-hand column to indicate which types of budgets and related management systems your authority uses. In the right hand columns please indicate how important you consider each of the listed management systems to be in assisting financial management in your authority. If there are other systems that you use, please write in descriptive titles at the end of the list, and tick to indicate how important you consider each to be in the same way. (The question is related to both the revenue and capital programmes).

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> Traditional budgeting system					
<input type="checkbox"/> An integrated system of corporate planning, OR					
<input type="checkbox"/> Some elements of corporate planning					
<input type="checkbox"/> An integrated system of programme budgeting (PPBs), OR					
<input type="checkbox"/> Some elements of programme budgeting (PPBs)					
<input type="checkbox"/> Zero-base budgeting system, OR					
<input type="checkbox"/> Modified system based on zero-based principles					
<input type="checkbox"/> Other (please specify)					

2.1 Please tick the appropriate box to indicate if the organisational and managerial changes in local government during the 1970s (including the changes of the 1974 re-organisation) led to changes in the budgetary systems and the management systems in your authority or (its predecessor)?

Yes ☐

No ☐

2.2 If your answer above is "Yes", please tick the appropriate box(es) in the left-hand column below to indicate the change(s) made and then tick in the right-hand columns to indicate how important the change(s) was/were to your authority.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> By introducing a new budgeting system and other financial systems					
<input type="checkbox"/> By looking in great depth at the future implications of present decisions, through long-term planning					
<input type="checkbox"/> By emphasising the necessity of linking planning with budgeting					

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> By giving more consideration to the needs of the community, and to the organisation's objectives (e.g. adopting more effective means of utilising the organisation's resources)					
<input type="checkbox"/> Other (please specify)					

3.1 Have your budgeting system and related management systems been affected by newer developments in public budgeting (e.g. PPBs, corporate planning and ZBB), or is your budgeting still traditional (e.g. subjective or functional budgets)?

- ☐ Yes, it has been affected
- ☐ No, it has not been affected

3.2 If your above answer is "no", please tick below to indicate how relevant you consider each of the five reasons mentioned may have been to your authority's decision not to introduce and/or use the newer systems. If there are other reasons, please add to the list and assess in the same way.

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
a. Because our organisation is too small to adopt such systems					
b. Because of a shortage of staff in our organisation who could be devoted to such schemes					
c. Because the benefit from these systems does not justify the effort and cost of developing such systems					
d. Because these systems are too difficult to be implemented, and there are doubts about their operation in practice					
e. Because the results from the application of these systems in other organisations are not encouraging.					
f. Other (Please specify).					

3.3 If your answer to question (3.1) is "No", do you intend to introduce any developments in the future?

Yes ☐

No ☐

3.4 If your answer to question (3.3) is "Yes", please tick the appropriate box(es) in the left-hand column below to indicate the systems which your authority may introduce, then place one tick on the same line, representing how important you consider this system(s) would be for your authority. If there are other systems, please add and assess them in the same way.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> Programme budgeting system (PPBs)					
<input type="checkbox"/> Corporate planning					
<input type="checkbox"/> Zero-base budgeting					
<input type="checkbox"/> Other (please specify)					

4.1 Do you have a separate forward planning unit in your authority (i.e. corporate long-term planning)?

Yes ☐

No ☐

4.2 If your answer to question (4.1) is "No", where in your authority are such planning duties carried out?

4.3 Please tick the appropriate box(es) in the left-hand column below to indicate the maximum length of period over which you engage in long-term planning, then place one tick on the same line to indicate how relevant you consider each period to be when you are setting long-term plans. (This question relates to capital expenditure in your authority).

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
<input type="checkbox"/> 2 years to 4 years					
<input type="checkbox"/> 5 years					
<input type="checkbox"/> 6 years to 9 years					
<input type="checkbox"/> 10 years					
<input type="checkbox"/> Other (please specify).					

4.4 Would you please describe in brief the long-term planning philosophy of your authority.

5.1 Do you plan long-range revenue expenditure for several years ahead?

Yes ☐

No ☐

5.2 If your answer to question (5.1) is "Yes", please place one tick at the left below to indicate how long ahead you currently plan, then tick each line at the right to show how relevant you consider each period of planning. (This question relates to revenue expenditure).

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
<input type="checkbox"/> 2 years to 4 years					
<input type="checkbox"/> 5 years					
<input type="checkbox"/> 6 years to 9 years					
<input type="checkbox"/> 10 years					
<input type="checkbox"/> Other (please specify)					

5.3 If your answer to question (5.1) is "No", please tick the appropriate column to indicate how relevant one or more of the reasons below may have been leading to your authority's decision not to plan long-range revenue expenditure for several years ahead.

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
a. Because long-range planning is mainly relevant only to capital expenditure					
b. Because of uncertainty over the limit of expenditure which central government will provide (i.e. cash limit)					
c. Because of difficulty in assessing the future attitude of central government concerning its contribution to the authority's revenue					
d. Because the planning of revenue expenditure, when there is a high rate of inflation, is useless.					
e. Because there is a regular forward look at the level of commitments for the next financial year, and, at budget time, at the level of commitments for the first year beyond the budget year.					
f. Because the planning of revenue expenditure is not necessary.					
g. Other (please specify)					

6. Would you please tick the appropriate box below to indicate how important you consider measuring actual results against estimates of long-term plans prepared in previous years, for the purposes of improving and formulating long-term plans.

Very important
 Quite important
 Of some importance
 Of little importance
 Of no importance

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

7.1 To what extent do you think the newer developments in public-sector budgeting and the related management systems (e.g. PPBs, corporate planning and ZBB) are an effective means of improving the decision-making process generally in public-sector service organisations. Please place one tick on each line to indicate the amount of effectiveness that each system has. If there are other relevant systems please add and assess them in the same way.

	Very effective	Quite effective	Of some effectiveness.	Of little effectiveness.	Of no effectiveness.
a. Programme budgeting system (PPBs)					
b. Corporate planning					
c. Zero-base budgeting (ZBB)					
d. Other (Please specify).					

7.2 Please tick the left-hand column below to indicate from which source(s) your opinion has been influenced in answering question (7.1). In the right-hand columns please indicate how much your answer has been influenced by the factors stated.

[illegible]

8. Please tick in the left-hand column to indicate the users of budget information in your authority. In the right-hand columns please indicate how important you consider this information should be to each user.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> Policy makers - the elected members assisted by chief officers					
<input type="checkbox"/> Service managers - generally any officer responsible for expenditure for the whole or part of any service or activity.					
<input type="checkbox"/> Central government (e.g. civil servants, MPs, etc) to help them form and guide national policies.					
<input type="checkbox"/> Local authority association					
<input type="checkbox"/> Other local authorities, for comparative purposes.					
<input type="checkbox"/> Ratepayers association					
<input type="checkbox"/> The public and Press					
<input type="checkbox"/> Other (please specify)					

9. Please place one tick in the appropriate column below to indicate how important you consider each of the listed functions to be as a function of the annual budgets of your authority. If there are other functions, please add and assess them in the same way.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
a. Enables the rate or precept to be fixed.					
b. Assists in policy-making.					
c. Assists the authority's planning of future expenditure.					
d. Provides the base for control of expenditure and income.					
e. Provides yardstick measuring implementation of policy.					
f. Other (please specify).					

8. Please tick in the left-hand column to indicate the users of budget information in your authority. In the right-hand columns please indicate how important you consider this information should be to each user.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
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<input type="checkbox"/> Ratepayers association					
<input type="checkbox"/> The public and Press					
<input type="checkbox"/> Other (please specify)					

9. Please place one tick in the appropriate column below to indicate how important you consider each of the listed functions to be as a function of the annual budgets of your authority. If there are other functions, please add and assess them in the same way.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
a. Enables the rate or precept to be fixed.					
b. Assists in policy-making.					
c. Assists the authority's planning of future expenditure.					
d. Provides the base for control of expenditure and income.					
e. Provides yardstick measuring implementation of policy.					
f. Other (please specify).					

10.1 Does your authority have a medium-term budget (i.e. up to a period of 5 years)?

Yes

☐

No

☐

10.2 If your answer to question (10.1) is "Yes", please tick in the appropriate column below to indicate how important you consider each of the listed functions to be as a function of the medium-term budgets of your authority. If there are other functions, please add and assess them in the same way.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
a. To forecast possible rate levies well in advance so that members can indicate political acceptability.					
b. To review the relative speed at which different services can be developed and to achieve a co-ordinated approach to service development.					
c. To plot the longer-term financial consequences of different projects, whether revenue or capital, to assist in policy choice.					
d. To consider the development of local services in the light of government indicators such as the Public Expenditure Survey.					
e. To display the cumulative effects of existing commitments, both revenue and capital, as a base for future changes in service provision.					
f. To weigh the longer-term forecasts submitted to government departments					
g. To enable political priorities to emerge in the light of what is possible within the limited physical and financial resources available.					
h. To reflect the continuing burden of local service provision and possible developments and policy changes.					
j. Other (Please specify).					

11. Could you please state the title of the officer or group who in your authority is responsible for setting the overall framework and concepts for budget preparation and co-ordinating the task.

12. Please tick in the appropriate column below to indicate how much influence is exerted by one or more of the listed groups in forming the final consideration and decisions on the budgets of your authority. If there are other groups please add and assess them in the same way.

	To a very great extent	To a considerable extent	To some extent	To a small extent	Not at all
a. Some of the individual chief officers.					
b. Service committees.					
c. Programme committees.					
d. Management team.					
e. Policy or finance committee of council.					
f. The whole council.					
g. Treasurer/Director of finance.					
h. General committee of local party in power.					
i. Other (please specify)					

13. In estimating and preparing budgets, which system is used in your authority? Please tick the appropriate box --

- ☐ A centralised system, based on the treasurer's department with work mainly carried out by staff in the treasurer's departments.
- ☐ A decentralised system, based on service departments, with work mainly carried out by staff in the service departments.
- ☐ Partly centralised, with the finance departments furnishing basic data and criteria for preparation, and partly decentralised, with spending departments producing forward projections.
- ☐ Other (please specify).

14. Please tick in the left-hand column below to indicate what types of budgetary control are practised at various times through the cycle of your authority's affairs? In the right-hand columns please indicate how important each type of control to be for your authority.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> Control during preparation (i.e. control exerted by the acceptance of overall resource constraints).					
<input type="checkbox"/> Control during outturn (i.e. control is made to monitor actual activity against the planned position).					
<input type="checkbox"/> Control by end-of-year review of actual performance under each budget.					
<input type="checkbox"/> Other (please specify)					

15. Could you please tick appropriate box(es) overleaf to indicate if your authority has adopted written regulations for budgetary-control purposes, regarding each of the following items:

- a. Spending (within delegated powers committees may incur expenditure other than the approved estimate without further approval of the council.) ☐
- b. Supplementary estimates ☐
- c. Capital schemes ☐
- d. Control of spending ☐
- e. Revenue Virement ☐
- f. Capital Virement ☐
- g. Unspent Balances (Estimates) ☐
- h. Control of Manpower numbers ☐
- i. Other (Please specify) ☐

16.1 Do you think that the cash limit system has a great deal of influence on the planning and the operation of the budgetary system in your authority?

Yes ☐

No ☐

16.2 If your answer to question (16.1) is "Yes", please tick the appropriate box below to indicate how much influence is exerted. Then please clarify how?

- ☐ To a very great extent
- ☐ To a considerable extent
- ☐ To some extent
- ☐ To a small extent
- ☐ Not at all

17. Please tick in the left-hand column below to indicate what types of information and data outputs are required from your accounting system? In the right-hand columns please indicate the extent to which you use each output. If there are other uses (outputs), please add them to the list and grade them in the same way.

	Very great deal of use	Quite considerable use	Some use	Little use	Of No use
<input type="checkbox"/> Cost data					
<input type="checkbox"/> Data to be used for economic and social studies					
<input type="checkbox"/> Financial position statements					
<input type="checkbox"/> Financial reports					
<input type="checkbox"/> Special analytic studies including effectiveness indicators					
<input type="checkbox"/> Progress reports/ management reports					
<input type="checkbox"/> Comparison with budget					
<input type="checkbox"/> Other (Please specify)					

18.1 Has your authority introduced any changes in the accounting and auditing procedures as a result of the introduction of the newer systems mentioned earlier in this questionnaire?

Yes ☐

No ☐

18.2 If your answer to question (18.1) is "No", but your authority has introduced some changes in the accounting and auditing procedures for other reasons, please state them below:

a

b

c

d

18.3 If your answer to question (18.1) is "Yes" or indeed if your authority has made changes for other reasons listed in (18.2), then in the right-hand columns below please indicate how important you consider each of the change(s) made.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
<input type="checkbox"/> Adapting the cost and management accounting system to achieve improved efficiency					
<input type="checkbox"/> Using effectiveness auditing (i.e. to see how effective the authority has been in achieving its objectives)					
<input type="checkbox"/> Using accrual accounting rather than cash accounting					
<input type="checkbox"/> Establishing a new computerised accounting system					
<input type="checkbox"/> Furnishing accounting reports on the basis of programmes in addition to the traditional reports produced by departments					
<input type="checkbox"/> Other (please specify)					

19. Please place one tick in the appropriate column below to indicate how important you consider each of the listed techniques to be for the purposes of measuring the output of your authority.

	Very important	Quite important	Of some importance	Of little importance	Of no importance
a. Cost-benefit analysis of ongoing revenue expenditure					
b. Cost effectiveness analysis					
c. Financial and non- financial statistics					
d. Other (please specify)					

20. Any publication on this subject and financial matters in general which you have and think may be helpful we would be pleased to receive. Please enter any additional information or comments you think might be helpful. Thank you for your interest, time and participation in this research.

PLEASE USE THIS PAGE AS A CONTINUATION SHEET FOR ANY COMMENTS WHICH ARE TOO LONG FOR THE SPACE ALLOWED IN THE QUESTIONNAIRE.

Question
Code No.

Please continue overleaf if necessary

Appendix 7.2

Names of English Local Authorities

Included in the Survey⁽¹⁾

A. Metropolitan Counties

A.1	Greater Manchester	A.2*	Merseyside
A.3*	South Yorkshire	A.4	Tyne and Wear
A.5	West Midlands	A.6*	West Yorkshire

B. Metropolitan Districts

B.1	Barnsley	B.2	Birmingham City
B.3	Bolton	B.4	Bradford City
B.5	Bury	B.6	Calderdale
B.7*	Coventry City	B.8*	Doncaster
B.9*	Dudley	B.10*	Gateshead
B.11*	Kirklees	B.12	Knowsley
B.13	Leeds City	B.14	Liverpool City
B.15	Manchester City	B.16*	Newcastle Upon Tyne City
B.17	North Tyneside	B.18*	Oldham
B.19	Rochdale	B.20	Rotherham
B.21	St. Helens	B.22*	Salford City
B.23*	Sandwell	B.24	Sefton
B.25	Sheffield City	B.26*	Solihull
B.27	South Tyneside	B.28	Stockport

(1) Authorities which have completed the questionnaire and indicated their willingness to appear in the list of participants to this enquiry are prefixed by a (*).

B.29 Sunderland

B.31* Trafford

B.33 Walsall

B.35 Wirrall

B.30 Tameside

B.32* Wakefield City

B.34 Wigan

B.36 Wolverhampton

C. Non-Metropolitan Counties

C.1* Avon

C.3 Berkshire

C.5* Cambridgeshire

C.7* Cleveland

C.9* Cumbria

C.11 Devon

C.13 Durham

C.15* Essex

C.17* Hampshire

C.19 Hertfordshire

C.21* Isle of Wight

C.23 Lancashire

C.25* Lincolnshire

C.27 Northamptonshire

C.29* North Yorkshire

C.31 Oxfordshire

C.33* Somerset

C.35* Suffolk

C.37 Warwickshire

C.39* Wiltshire

C.2 Bedfordshire

C.4* Buckinghamshire

C.6 Cheshire

C.8* Cornwall

C.10 Derbyshire

C.12 Dorset

C.14* East Sussex

C.16* Gloucestershire

C.18 Hereford and Worcester

C.20 Humberside

C.22* Kent

C.24 Leicestershire

C.26* Norfolk

C.28* Northumberland

C.30 Nottinghamshire

C.32* Shropshire

C.34 Staffordshire

C.36 Surrey

C.38 West Sussex

D. Non-Metropolitan Districts

D.1*	Adur	D.2	Allerdale
D.3*	Alnwick	D.4*	Amber Valley
D.5	Arun	D.6*	Ashfield
D.7	Ashford	D.8*	Aylesbury Vale
D.9*	Babergh	D.10	Barrow-in-Furness
D.11	Basildon	D.12	Basingstoke and Dean
D.13	Bassetlaw	D.14	Bath City
D.15	Berwick-upon-Tweed	D.16	Beverley
D.17	Blaby	D.18	Blackburn
D.19	Blackpool	D.20	Blyth Valley
D.21	Bolsover	D.22	Boothferry
D.23	Boston	D.24	Bournemouth
D.25	Bracknell	D.26	Braintree
D.27*	Breckland	D.28	Brentwood
D.29	Bridgnorth	D.30*	Brighton
D.31	Bristol City	D.32	Broadland
D.33	Bromsgrove	D.34*	Broxbourne
D.35*	Broxtowe	D.36	Burnley
D.37	Cambridge City	D.38*	Cannock Chase
D.39	Canterbury City	D.40	Caradon
D.41	Carlisle City	D.42	Carrick
D.43*	Castle Morpeth	D.44	Castle Point
D.45	Charnwood	D.46	Chelmsford
D.47	Cheltenham	D.48	Cherwell
D.49*	Chester City	D.50	Chesterfield
D.51	Chester in Street	D.52	Chichester
D.53	Chiltern	D.54	Chorley

D.55	Christchurch	D.56	Cleethorpes
D.57*	Colchester	D.58	Congleton
D.59*	Copeland	D.60	Corby
D.61	Cotswold	D.62	Craven
D.63*	Crawley	D.64	Crewe and Nantwich
D.65*	Dacbrum	D.66	Darlington
D.67	Dartford	D.68	Daventry
D.69*	Derby City	D.70*	Derwentside
D.71*	Dover	D.72*	Durham City
D.73	Easington	D.74*	Eastbourne
D.75	East Cambridgeshire	D.76*	East Devon
D.77	East Hampshire	D.78*	East Hertfordshire
D.79	Eastleigh	D.80	East Lindsey
D.81	East Northamptonshire	D.82*	East Staffordshire
D.83	Eden	D.84*	Ellesmere Port and Neston
D.85*	Elmbridge	D.86	Epping Forest
D.87	Epsom and Ewell	D.88	Erewash
D.89	Exeter City	D.90*	Fareham
D.91	Fenald	D.92	Forest Heath
D.93	Forest of Dean	D.94	Fylde
D.95*	Gedling	D.96*	Gillingham
D.97	Glandford	D.98	Gloucester City
D.99	Gosport	D.100	Gravesham
D.101*	Great Grimsby	D.102*	Great Yarmouth
D.103	Guildford	D.104	Halton
D.105*	Hambleton	D.106	Harborough
D.107*	Harlow	D.108	Harrogate
D.109	Hart	D.110	Hartlepool

- | | |
|-----------------------------|-------------------------------|
| D.111 Hastings | D.112 Havant |
| D.113* Hereford City | D.114* Hertsmere |
| D.115* High Peak | D.116 Hinckley and Bosworth |
| D.117 Holderness | D.118* Horsham |
| D.119* Hove | D.120* Huntingdon |
| D.121 Hyndburn | D.122* Ipswich |
| D.123 Kennet | D.124* Kerrier |
| D.125 Kettering | D.126 Kingston upon Hull City |
| D.127 Kingswood | D.128* Lancaster City |
| D.129* Loughborough | D.130* Leicester City |
| D.131 Leominster | D.132* Lewes |
| D.133 Lichfield | D.134* Lincoln City |
| D.135* Luton | D.136 Macclesfield |
| D.137 Maidstone | D.138 Maldon |
| D.139 Malvern Hills | D.140 Mansfield |
| D.141 Medina | D.142* Melton |
| D.143 Mendip | D.144* Mid Bedfordshire |
| D.145* Mid Devon | D.146* Middlesbrough |
| D.147* Mid Suffolk | D.148 Mid Sussex |
| D.149 Milton Keynes | D.150* Mole Valley |
| D.151 Newark | D.152 Newbury |
| D.153 Newcastle-under-Lyme | D.154* New Forest |
| D.155 Northampton | D.156 Northavon |
| D.157* North Bedfordshire | D.158* North Cornwall |
| D.159* North Devon | D.160 North Dorset |
| D.161 North East Derbyshire | D.162* North Hertfordshire |
| D.163 North Kesteven | D.164* North Norfolk |
| D.165 North Shropshire | D.166* North Warwickshire |

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|----------------------------------|------------------------------|
| D.167* North West Leicestershire | D.168 North Wiltshire |
| D.169* North Wolds | D.170 Norwich City |
| D.171 Nottingham City | D.172 Nuneaton |
| D.173* Oadly and Wigston | D.174 Oswestry |
| D.175* Oxford City | D.176 Pendle |
| D.177 Penwith | D.178 Peterborough City |
| D.179 Plymouth City | D.180 Poole |
| D.181 Portsmouth City | D.182* Preston |
| D.183 Purbeck | D.184* Reading |
| D.185* Redditch | D.186 Reigate and Banstead |
| D.187* Restormel | D.188 Ribble Valley |
| D.189* Richmondshire | D.190* Rochester upon Medway |
| D.191* Rochford | D.192 Rossendale |
| D.193 Rother | D.194 Rugby |
| D.195 Runnymede | D.196* Rushcliffe |
| D.197 Rushmoor | D.198 Rutland |
| D.199* Ryedale | D.200* St. Albans City |
| D.201 St Edmundsbury | D.202 Salisbury |
| D.203 Scarborough | D.204 Scunthorpe |
| D.205* Sedgefield | D.206 Sedgemoor |
| D.207 Selby | D.208* Sevenoaks |
| D.209 Shepway | D.210* Shrewsbury and Atcham |
| D.211 Slough | D.212 Southampton City |
| D.213 South Bedfordshire | D.214 South Bucks |
| D.215* South Cambridgeshire | D.216 South Derbyshire |
| D.217 Southend-on-Sea | D.218 South Hams |
| D.219* South Hertfordshire | D.220 South Holland |
| D.221 South Kesteven | D.222 South Lakeland |

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|------------------------------------|-------------------------------|
| D.223 South Norfolk | D.224 South Northamptonshire |
| D.225* South Oxfordshire | D.226 South Ribble |
| D.227* South Shropshire | D.228 South Staffordshire |
| D.229 South Wight | D.230 Spelthorpe |
| D.231 Stafford | D.232 Staffordshire Moorlands |
| D.233 Stevenage | D.234 Stockton-on-Tees |
| D.235 Stoke-on-Trent City | D.236* Stratford-on-Avon |
| D.237 Stroud | D.238 Suffolk Coastal |
| D.239 Surrey Heath | D.240 Swele |
| D.241 Tamworth | D.242 Tandridge |
| D.243 Taunton Deane | D.244 Teesdale |
| D.245 Teignbridge | D.246* Tendring |
| D.247* Test Valley | D.248* Tewksbury |
| D.249* Thamesdown | D.250* Thanet |
| D.251 Three Rivers | D.252 Thurrock |
| D.253 Tonbridge and Malling | D.254 Torbay |
| D.255 Torridge | D.256 Tunbridge Wells |
| D.257* Tynedale | D.258* Uttlesford |
| D.259* Vale of White Horse | D.260* Vale Royal |
| D.261 Wansbeck | D.262 Wansdyke |
| D.263 Warrington | D.264 Warwick |
| D.265 Watford | D.266* Waveney |
| D.267 Waverley | D.268 Wealden |
| D.269 Wear Valley | D.270* Wellingborough |
| D.271 Welwyn Hatfield | D.272 West Derbyshire |
| D.273 West Devon | D.274 West Dorset |
| D.275 West Lancashire | D.276* West Lindsey |
| D.277 West Norfolk and King's Lynn | D.278 West Oxfordshire |
| D.279* West Somerset | D.280 West Wiltshire |

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|------------------------------------|-------------------------------|
| D.223 South Norfolk | D.224 South Northamptonshire |
| D.225* South Oxfordshire | D.226 South Ribble |
| D.227* South Shropshire | D.228 South Staffordshire |
| D.229 South Wight | D.230 Spelthorpe |
| D.231 Stafford | D.232 Staffordshire Moorlands |
| D.233 Stevenage | D.234 Stockton-on-Tees |
| D.235 Stoke-on-Trent City | D.236* Stratford-on-Avon |
| D.237 Stroud | D.238 Suffolk Coastal |
| D.239 Surrey Heath | D.240 Swele |
| D.241 Tamworth | D.242 Tandridge |
| D.243 Taunton Deane | D.244 Teesdale |
| D.245 Teignbridge | D.246* Tendring |
| D.247* Test Valley | D.248* Tewksbury |
| D.249* Thamesdown | D.250* Thanet |
| D.251 Three Rivers | D.252 Thurrock |
| D.253 Tonbridge and Malling | D.254 Torbay |
| D.255 Torridge | D.256 Tunbridge Wells |
| D.257* Tynedale | D.258* Uttlesford |
| D.259* Vale of White Horse | D.260* Vale Royal |
| D.261 Wansbeck | D.262 Wansdyke |
| D.263 Warrington | D.264 Warwick |
| D.265 Watford | D.266* Waveney |
| D.267 Waverley | D.268 Wealden |
| D.269 Wear Valley | D.270* Wellingborough |
| D.271 Welwyn Hatfield | D.272 West Derbyshire |
| D.273 West Devon | D.274 West Dorset |
| D.275 West Lancashire | D.276* West Lindsey |
| D.277 West Norfolk and King's Lynn | D.278 West Oxfordshire |
| D.279* West Somerset | D.280 West Wiltshire |

D.281 Weymouth and Portland	D.282* Wimborne
D.283* Winchester City	D.284* Windsor and Maidenhead Royal
D.285 Woking	D.286* Wokingham
D.287 Woodspring	D.288 Worcester City
D.289 Worthing	D.290 Wrekin (The)
D.291 Wychavon	D.292 Wycombe
D.293 Wyre	D.294* Wyre Forest
D.295* Yeovil	D.296 York City

E. Greater London Authorities

E.1 Greater London Council	E.2* London Corporation
E.3 Barking and Dagenham	E.4 Barnet
E.5 Bexley	E.6 Brent
E.7 Bromley	E.8 Camden
E.9* Croydon	E.10* Ealing
E.11 Enfield	E.12 Greenwich
E.13 Hackney	E.14 Hammersmith and Fulham
E.15 Haringey	E.16 Harrow
E.17* Havering	E.18 Hillingdon
E.19 Hounslow	E.20* Islington
E.21 Kensington and Chelsea, Royal	E.22 Kingston upon Thames, Royal
E.23* Lambeth	E.24 Lewisham
E.25* Merton	E.26* Newham
E.27 Redbridge	E.28 Richmond upon Thames
E.29 Southwark	E.30 Sutton
E.31 Tower Hamlets	E.32* Waltham Forest
E.33* Wandsworth	E.34* Westminster City

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROSE E. C. TOMLINSON
JOINT DIRECTORS



APPENDIX 7.3

411

UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Ext. 2528 [TELEX 314001]

26 January 1982

Dear Mr

On the 25th of November 1981 we wrote to you asking for your help on a research project which is currently in progress at this centre concerning Budgetary Control and Related Management Systems used in local authorities. We are researching the experience and views of local authorities regarding techniques such as programme budgeting (PPBS), corporate planning and zero-base budgeting as well as traditional budgeting. We realise, of course, that not all authorities have used all these techniques, and that many authorities have used them only to a limited extent, but we do assume that all authorities are using at least traditional budgeting and will therefore find it possible and relevant to complete our questionnaire.

As we have not heard from you it is possible that the questionnaire never reached you or has been mislaid, so we are sending you another copy. We hope you will be able to spare some of your valuable time to complete it and return it to us.

Thank you for your help and co-operation.

Yours sincerely

John Perrin

Tahseen Salem

PS As mentioned in question 20 in the questionnaire, we would be grateful to receive copies of any documents or publications you may be agreeable to sending us to help explain or illustrate your use of budgetary systems and information (e.g. specimen budgets, budget manuals, budget or planning systems papers, budget statements or reports on budget outturn prepared for authority members or the public, etc.).

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROBERT C. TOMLINSON
JOINT DIRECTORS



UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 (TELEX 314061)

24th February, 1982.

Dear Mr

On the 25th of November 1981 we wrote to you asking for your help on a research project which is currently in progress at this centre concerning Budgetary Control and Related Management Systems used in local authorities. We are researching the experience and views of local authorities regarding techniques such as programme budgeting (PPBS), corporate planning and zero-base budgeting as well as traditional budgeting. We realise, of course, that not all authorities have used all these techniques, and that many authorities have used them only to a limited extent, but we do assume that all authorities are using at least traditional budgeting and will therefore find it possible and relevant to complete our questionnaire.

As we have not heard from you it is possible that the questionnaire never reached you or has been mislaid, so we are sending you another copy. We hope you will be able to spare some of your valuable time to complete it and return it to us.

Thank you for your help and co-operation.

Yours sincerely

John Perrin

Tahseen Salem

PS As mentioned in question 20 in the questionnaire, we would be grateful to receive copies of any documents or publications you may be agreeable to sending us to help explain or illustrate your use of budgetary systems and information (e.g. specimen budgets, budget manuals, budget or planning systems papers, budget statements or reports on budget outturn prepared for authority members or the public, etc.).

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROLFE C. TOMLINSON
JOINT DIRECTORS



UNIVERSITY OF WARWICK

COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 (TELEX 31406)

20th April, 1982.

Dear Mr.

We are writing to ask for your help on a research project currently in progress at this Centre. Mr Salem and I are engaged on research into Budgetary Control and Related Systems used in local authorities. Separately we have contacted Treasurers and we are grateful to have received co-operation and a good response from them. But it is extremely important to know also how heads of service departments view and use budgets and related information systems for planning and control.

For the sake of conserving your valuable time we have constructed the enclosed questionnaire so that all parts of it can be answered quickly by ticking appropriate box(es) and columns, although supplementary comments can be written in as well, as desired.

Could you please return the questionnaire even if you are unable to complete part of it. If you feel that you would prefer to discuss the issues involved in person, then Mr Salem may be able to arrange to visit your department.

As mentioned in question (8) in the questionnaire we would be grateful to receive any documents or publications you may be agreeable to sending us to help explain or illustrate your use of budgetary control systems and related information.

Thank you very much for your help and co-operation.

Yours sincerely,

J.R.Perrin (Professor)

Tahseen Salem

Encl: questionnaire.

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROLFE C. TOMLINSON
JOINT DIRECTORS



UNIVERSITY OF WARWICK

COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 (TELEX 31406)

15 June 1982

Dear Mr

On April 20th we wrote to you asking for your help on a research project currently in progress at this Centre. Mr Salem and I are engaged on research into Budgetary Control and Related Systems used in local authorities. Separately we have contacted Treasurers and we are grateful to have received co-operation and a good response from them. But it is extremely important to know also how heads of service departments view and use budgets and related information systems for planning and control.

As we have not heard from you is it possible that the questionnaire never reached you or has been mislaid, so we are sending you another copy. We hope you will be able to spare some of your valuable time to complete it and return it to us.

Thank you for your help and co-operation.

Yours sincerely

J R Perrin (Professor)

Tahseen Salem

Enc: questionnaire.

**CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION**

PROFESSOR JOHN R. PERRIN
PROFESSOR ROLFE C. TOMLINSON
JOINT DIRECTORS



UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 [TELEX 31406]

BUDGETARY CONTROL AND RELATED ACCOUNTING SYSTEMS SURVEY IN

LOCAL AUTHORITIES

- A. Authority Name:
- B. Department Name:
- C. Name and Official Designation of person completing this questionnaire:
- D. Total number of years spent with present Authority ☐
- E. In the event of the need for follow-up by the researcher, Please state Name of Official who can be contacted if different from that stated in (C).
- F. If you would like to be interviewed at a later stage, please tick this box ☐

General Notes

- A. Most of the questions in this questionnaire can be answered by ticking (✓) the appropriate box against the answer(s) listed under the question.
- B. If it is difficult to determine precise answers to particular questions, please provide the best estimate you can, and if any of your answers and comments require more space than has been allowed for under the questions, please continue on the spare page attached to the back of this questionnaire, referring in your answer to the question number(s).
- C. All individual answers and comments will be regarded as STRICTLY CONFIDENTIAL. However, will you please indicate if you are willing to allow the name of your authority to appear in a list of participants to this enquiry.

Yes ☐ No ☐

- D. Please return your completed questionnaire (and any comments) addressed PERSONAL to

Mr. T. B. Salem
c/o Professor J. R. Perrin
C.R.I.B.A.
University of Warwick
COVENTRY CV4 7AL

1. Please tick the appropriate columns below to indicate how much influence is exerted by the listed persons or groups in the final consideration and decisions on the setting of budgets in your authority. If there are other groups please add and assess them in the same way.

	To a very great extent	To a considerable extent	To some extent	To a small extent	Not at all
	%	%	%	%	%
a. Chief Executive	8	12	31	34	15
b. Service committees	33	36	21	9	1
c. Management team	12	32	26	27	3
d. Policy or finance committee of council	48	35	10	6	1
e. The whole council	9	16	34	32	9
f. Treasurer/Director of finance	20	39	28	13	-
g. Other influential chief officers	3	14	20	36	27
h. General committee of local party in power	26	15	15	13	30
i. Other	33	34	17	16	-

2. In estimating and preparing budgets, which system is used in your authority? Please tick appropriate box...

10%

A centralised system, based on the Treasurer's department with work mainly carried out by staff in the Treasurer's department

19%

A decentralised system, based on service departments, with work mainly carried out by staff in service departments

57%

Partly centralised, with the Treasurer's department furnishing basic data and criteria for preparation, and partly decentralised, with spending departments producing forward projections

14%

Other

3. Please tick in the left-and column below to indicate what types of information and data outputs provided by the Treasurer's Department you use in planning and controlling your department. In the right-hand columns please tick to indicate the extent to which you use each output. If there are other uses (outputs), please add and assess them in the same way.

		Very great deal of use	Quite consider- able use	Of some use	Of little use	Of no use
<input type="checkbox"/> 53	Cost data	28	38	26	6	2
<input type="checkbox"/> 23	Data to be used for economic and social studies	4	35	35	26	-
<input type="checkbox"/> 64	Financial position statements	27	47	25	1	-
<input type="checkbox"/> 50	Financial reports	16	50	28	6	-
<input type="checkbox"/> 26	Special analytic studies including effectiveness indicators	12	50	27	11	-
<input type="checkbox"/> 40	Progress reports/ management reports	20	23	37	15	5
<input type="checkbox"/> 60	Comparison of actual activity with budget	33	45	20	2	-
<input type="checkbox"/> 8	Other	50	50	-	-	-

4.1 Do you plan forward levels of service-provision required for several years ahead?

☐ 66% Yes

☐ 34% No

4.2 If your answer to question (4.1) is "Yes", please place one tick at the left below to indicate which planning periods you currently use, then tick the appropriate columns at the right to show how relevant you consider each period of planning is for your department.

		Very relevant	Quite relevant	Of some relevance	Of little relevance	of no relevance
<input type="checkbox"/> 30	1 year to 2 years	63	23	10	4	-
<input type="checkbox"/> 25	3 years to 4 years	20	68	8	4	-
<input type="checkbox"/> 19	5 years	11	52	34	3	-
<input type="checkbox"/> 19	6 years to 9 years	21	32	37	10	-
<input type="checkbox"/> 13	10 years	8	46	15	31	-
<input type="checkbox"/> 13	Other	50	50	-	-	-

5. There are several kinds of criteria which you may use in assessing the performance of your department. Please tick the appropriate columns below to indicate how important you consider the use of each of them. If there are other kinds of criteria that you use, please list them under (e) and assess in the same way.

	Very import- ant	Quite import- ant	Of some import- ance	Of little import- ance	Of no import- ance
	%	%	%	%	%
a. Budgetary perform- ance criteria	67	23	9	1	-
b. Other financial criteria (e.g. Unit cost criteria....)	22	32	29	12	5
c. Operational/ professional efficiency criteria	58	27	12	2	1
d. Service quality criteria	62	27	8	3	-
e. Other	40	40	20	-	-

6. Please tick the appropriate columns below to indicate the extent to which you use each of the listed means in monitoring/controlling your department's budget. If there are other means please list under (i) and assess them in the same way.

	A very great deal of use	Quite consid- erable use	Some use	Little use	Of no use
	%	%	%	%	%
a. Use of informal information system (i.e. records of order, invoices, etc) to help in monitoring every budget level	39	32	23	4	2
b. Use of cost unit to achieve improved efficiency	6	22	50	14	8

c. The total operating cost of the department regularly calculated and reviewed	28	32	22	15	3
d. Informal reports prepared on the completion of each project	7	20	45	22	6
e. Follow-up actions to be taken on recommendations introduced by the department	8	34	45	12	1
f. The implementation of recommendations monitored to determine general level of implementation	15	23	36	18	8
g. Reviews conducted to ensure that revised methods, manning levels, etc introduced by the department are being adhered to	19	38	25	15	3
h. Using effectiveness auditing to see how effective the department is in achieving its objectives	9	25	16	36	14
i. Other	33	67	-	-	-

Question
No.

Please continue overleaf if necessary/...

Appendix 7.5

Names of English Local Authorities Included
In The Random Sample Which Represents 50% of
Responding Authorities to the Main Questionnaire (1)

A. Metropolitan Counties

A.1 Merseyside Police Department

A.2 West Yorkshire * Police Department

B. Metropolitan Districts

B.1 Birmingham City Education Department

Social Services Department

* Housing Department

B.2 Coventry City * Education Department

Social Services Department

Housing Department

B.3 Dudley Education Department

Social Services Department

* Housing Department

B.4 Gateshead * Education Department

Social Services Department

* Housing Department

B.5 Kirklees Education Department

Social Services Department

Housing Department

B.6 Newcastle-Upon-Tyne Education Department

* Social Services Department

* Housing Department

(1) Departments which have completed the questionnaire and indicated their willingness to appear in the list of participants to this enquiry are prefixed by (*).

B. Metropolitan Districts (Cont'd)

B.7 Sandwell Education Department
Social Services Department
Housing Department

B.8 Salford City *Education Department
 Social Services Department
 Housing Department

B.9 Trafford

- * Education Department
- * Social Services Department
- * Housing Department

B.10 Wakefield City	Education Department
	Social Services Department
	* Housing Department

C. Non-Metropolitan Counties

C.1. Buckinghamshire * Education Department
Social Services Department

C.2 Cleveland

Education Department

Police Department

Social Services Department

C.3 Cumbria

- * Education Department
- Police Department
- * Social Services Department

C.4 East Sussex

- * Education Department
- * Social Services Department

C.5 Essex

* Education Department

Police Department

Social Services

[illegible]

C. Metropolitan Counties (Cont'd)

C.7 Lincolnshire	Education Department
	Police Department
	Social Services Department
C.8 Northumberland	Education Department
	Social Services Department
C.9 Shropshire	Education Department
	Social Services Department
C.10 Somerset	* Education Department
	Social Services Department
C.11 Suffolk	Education Department
	Police Department
	Social Services Department
C.12 Devon	* Education Department
	Social Services Department

D. Non-Metropolitan Districts Housing Departments

* D.1 Adur	D.2 Amber Valley
D.3 Bristol City	* D.4 Broxtowe
D.5 Cannock Chase	D.6 Castle Morpeth
* D.7 Cheltenham	D.8 Copeland
* D.9 Crawley	D.10 Derby City
D.11 Dover	* D.12 East Hertfordshire
D.13 Ellesmere Port and Neston	D.14 Elmbridge
* D.15 Fareham	* D.16 Gosport
* D.17 Great Grimsby	D.18 Great Yarmouth
D.19 Hertsmere	D.20 High Peak
* D.21 Huntingdon	D.22 Loughborough

D. Non-Metropolitan Districts Housing Departments (Cont'd)

D.23 Leicester City	D.24 Lewes
D.25 Luton	D.26 Melton
*D.27 Mid Devon	D.28 Mole Valley
*D.29 New Forest	D.30 North Bedfordshire
*D.31 North Cornwall	*D.32 North Hertfordshire
D.33 Oadby and Wigston	D.34 Oxford City
D.35 Plymouth City	D.36 Preston
*D.37 Redditch	*D.38 Restormel
D.39 Rochester upon Medway	D.40 Rushcliffe
*D.41 St. Albans City	*D.42 St. Edmundsbury
*D.43 Sevenoaks	D.44 Shrewsbury and Atcham
D.45 South Cambridgeshire	*D.46 South Oxfordshire
D.47 South Shropshire	*D.48 Stratford-on-Avon
*D.49 Stroud	*D.50 Tendring
*D.51 Tewkesbury	D.52 Thamesdown
D.53 Tynedale	*D.54 Wellingborough
*D.55 West Lindsey	D.56 West Norfolk and Kings Lynn
D.57 Wimborne	D.58 Winchester
*D.59 Windsor and Maidenhead Royal	D.60 Wokingham
D.61 Wychavon	D.62 Yeovil

E. Greater London Authorities' Departments

E.1 Greater London Council	*Housing Department
E.2 Brent	Education Department
	*Housing Department
	Social Services Department

E. Greater London Authorities Departments (Cont'd)

E.3 Croydon	Education Department
	Housing Department
	Social Services Department
E.4 Ealing	Education Department
	Housing Department
	* Social Services Department
E.5 Enfield	Education Department
	Housing Department
	* Social Services Department
E.6 Havering	Education Department
	* Housing Department
	Social Services Department
E.7 Islington	Education Department
	* Housing Department
	* Social Services Department
E.8 Merton	* Education Department
	Housing Department
	Social Services Department
E.9 Tower Hamlets	Housing Department
	Social Services Department
E.10 Wandsworth	Housing Department
	Social Services Department
E.11 Westminster City	Housing Department
	Social Services Department

CENTRE FOR RESEARCH IN INDUSTRY,
BUSINESS AND ADMINISTRATION

PROFESSOR JOHN R. PERRIN
PROFESSOR ROSE C. TOMLINSON
JOINT DIRECTORS



APPENDIX 7.6

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UNIVERSITY OF WARWICK
COVENTRY CV4 7AL

TELEPHONE COVENTRY (0203) 24011
Extn. 2528 (TELEX 31406)

26th November, 1982.

Dear

We are writing to thank you for your most helpful co-operation in completing the questionnaire of Mr. Salem on Budgetary Control and Related Accounting Systems in English Local Authorities.

When returning your questionnaire you most helpfully indicated a willingness to be interviewed concerning the questionnaire results. The questionnaire obtained a high level of response,* and Mr Salem has completed the analysis and statistical interpretation of the results. It is now important to validate how far the conclusions based on the statistical results carry realism and conviction with practitioners.

We would be grateful for your further help in discussing these findings in person with Mr. Salem. Mr. Salem will telephone you within the next two weeks to establish if a convenient date and time for an interview can be arranged.

Thank you for your help and co-operation.

Yours sincerely,

Professor John Perrin

Tahseen Salem.

* 177 questionnaires were completed.

THE MAIN CONCLUSIONS FROM REPLIES TO THE QUESTIONNAIRE ON "BUDGETARY CONTROL AND RELATED ACCOUNTING SYSTEMS IN ENGLISH LOCAL AUTHORITIES" *

1. Traditional budgetary procedures in local authorities are no longer sufficient for an effective and efficient allocation of resources. The annual "traditional budget" within a corporate planning framework is an integrated part of overall policy and strategy in most authorities. Budgeting is not a separate activity from long-term planning: indeed it is a significant part of the corporate planning system.
2. The use of traditional budgets in local authorities is considered necessary to achieve essential financial control (accountability).
3. The vast majority of English local authorities tend to doubt the practical value of PPBS and seem to prefer a corporate planning approach.
4. A corporate planning approach has a greater chance of success in the management planning and control process in English local authorities.
5. The majority of responding authorities believe PPBS and the corporate planning approach are effective means for improving the quality of allocation decisions.
6. All responding authorities have expressed their belief in the value of budgetary procedures as a means of improving decision-making.

* These were preliminary conclusions used as a discussion document in subsequent interviews with nine English local authorities (see Chapter 7).

7. A number of local authorities have recognised the value of adopting ZBB techniques, and some of them have adopted a modified budgeting system based on ZBB principles. These authorities seem to believe in ZBB as an approach more suitable to a climate of restraint and cutback than any other budgeting system, as may be relevant for the current economic situation.

8. Certain government reports on local government which have led to the introduction of organisational changes in local government in the 1970s, have had an obvious influence on the attitudes of local authorities towards the need for a change in the traditional resource allocation process. (Perhaps the Bains Report of 1972 should be given most of the credit for the changes in such attitudes).

9. Most responding authorities (73%) have not been affected by the newer developments in public budgeting and financial-control techniques, particularly the PPBS and corporate planning approach. A number of reasons were given, among them being the problem of authorities being too small, shortages of staff, and the practical difficulties of applying such techniques.

10. A large majority of local authorities do not have a separate forward planning unit. This reflects the attitude of local authorities in England, consonant with the traditional practice of planning.

11. The importance of long-term planning, particularly for capital expenditure, has been realised by the vast majority of local authorities.

12. The vast majority of local authorities have rejected the value of long-term planning for revenue expenditure. A number of reasons were given, among them being: long-term planning is mainly relevant only to capital expenditure, the limits of expenditure which central government will provide (i.e. cash limits), difficulty in assessing the future attitude of central government concerning its contribution to the authorities' revenue, and planning of revenue expenditure is not necessary.

13. A significant number of responding authorities have recognised the importance of measuring actual results against estimates of long-term plans prepared in previous years for the purposes of improving and formulating long-term plans, in addition to its financial control purposes.

14. A considerable number of authorities have agreed that establishing the link between planning and budgeting is greatly needed.

15. The vast majority of English local authorities do not have a medium-term budget. Only 33 authorities out of 177 responding authorities have reported the adoption of such a budget.

16. The majority of local authorities have adopted, in estimating and preparing budgets, a partly centralised system with finance departments furnishing basic data and criteria for preparation, and a partly decentralised system, with spending departments producing forward projections.

17. The vast majority of local authorities agree upon the importance of budgetary control during the preparation of budgets (exerted by the acceptance of overall resource constraints) and control during outturn, which is done in order to monitor actual activity against the planned position.

18. A large number of authorities have adopted written regulations for budgetary control purposes regarding the following items: Capital schemes, Control of spending, Revenue Virement, Capital Virement, and Manpower numbers. But as regards Unspent Balances (Estimates), only 25% of responding authorities have adopted written regulations for this item.

19. The vast majority of local authorities (81%) have recognised the influence of the cash limit system on the planning and operation of their budgetary system.

20. The existence of accurate and relevant information and data sources were recognised by the majority of local authorities as requirements for developing and implementing a corporate planning system and for the operation of a sound budgetary system.

21. The vast majority of local authorities disagree that the introduction of any changes in their accounting and auditing systems were a result of the introduction of newer budgeting and financial control techniques, such as PPBS, ZBB and corporate planning. Only 50 out of 177 responding authorities indicated this causation.

22. A considerable number of local authorities have recognised the importance of financial and non-financial statistics as a proper technique to use for the purpose of measuring the output of the authority. Meanwhile some authorities have considered cost-benefit analysis of ongoing revenue expenditure, and cost-effectiveness analysis techniques, as of some importance.

23. A large majority of responding authorities (68%) have introduced either minor or major changes in their budgetary procedures within the last decade.

Appendix 8.1

Distribution of How Important Each
of the Listed Management Systems are
in Assisting Financial Management in
An Authority as Assigned by the Respondents

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
Traditional budget- ing system	83	14	2	1	0
An integrated system of corporate planning, OR	30	19	19	14	18
Some elements of corporate planning	34	36	25	1	4
An integrated system of programme budget- ing (PPBS), OR	4	2	11	30	53
Some elements of programme budget- ing (PPBS)	11	7	20	31	31
Zero-base budgeting system, OR	7	7	19	19	48
Modified system based on zero-based principles	22	18	20	12	28
Other	13	20	67	0	0

Appendix 8.2

Distribution of How Important Each
of the Suggested Systems will be
For Future Development as Assigned
by the Respondents

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
Programme budgeting system (PPBS)	0	50	50	0	0
Corporate planning	54	21	25	0	0
Zero-base budgeting	31	50	19	0	0
Other	50	50	0	0	0

Appendix 8.3

Distribution of How Relevant are The Reasons
Mentioned by The Respondents About Their Negative
Response Toward the Newer Budgetary
Developments

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
	%	%	%	%	%
a. Because our organisation is too small to adopt such systems	23	17	19	10	31
b. Because of a shortage of staff in our organisation who could be devoted to such schemes	46	19	19	9	7
c. Because the benefit from these systems does not justify the effort and cost of developing such systems	34	27	29	3	7
d. Because these systems are too difficult to be implemented, and there are doubts about their operation in practice	17	21	40	13	9
e. Because the results from the application of these systems in other organisations are not encouraging	14	19	30	20	19
f. Other	74	21	5	0	0

Appendix 8.4

Distribution of How Important the
Responding Authorities Considered the Changes Made
in Their Budgetary Systems

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
Introducing a new budgeting system and other financial systems	69	22	8	1	0
By looking in great depth at the future implications of present decisions, through long-term planning	41	24	27	5	3
Emphasising the necessity of linking planning with budgeting	31	40	28	1	0
Giving more consideration to the needs of the community, and to the organisation's objectives (e.g. adopting more effective means of utilising the organisation's resources)	40	31	23	6	0
Other	82	18			

Appendix 8.5

Distribution of How Relevant
the Responding Authorities Considered
Each Period to be when Setting
Long-term Plans for Capital Expenditure

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
	%	%	%	%	%
2 years to 4 years	60	27	13	0	0
5 years	34	39	20	5	2
6 years to 9 years	14	28	29	29	0
10 years	0	0	50	50	0
Other	20	20	40	20	0

Appendix 8.6

Distribution of How Relevant were
the Reasons Mentioned by the Respondents in
making their Decision Not to Plan Long-term
Revenue Expenditure for Several Years Ahead

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
	%	%	%	%	%
a. Because long-range planning is mainly relevant only to capital expenditure	13	33	24	17	13
b. Because of uncertainty over the limit of expenditure which central government will provide (ie cash limit)	75	16	9	0	0
c. Because of difficulty in assessing the future attitude of central government concerning its contribution to the authority's revenue	66	18	12	3	1
d. Because the planning of revenue expenditure, when there is a high rate of inflation, is useless	8	24	34	18	16
e. Because there is a regular forward look at the level of commitments for the next financial year, and, at budget time, at the level of commitments for the first year beyond the budget year	27	23	21	15	14
f. Because the planning of revenue expenditure is not necessary	4	3	9	23	61
g. Other	66	29	5	0	0

Appendix 8.7

Distribution of How Relevant
the Respondents Considered Each Period
to be When Setting Long-term Plans For
Revenue Expenditure

	Very relevant	Quite relevant	Of some relevance	Of little relevance	Of no relevance
	%	%	%	%	%
2 years to 4 years	56	19	25	0	0
5 years	20	20	0	40	20
6 years to 9 years	0	0	33	67	0
10 years	0	0	0	0	100

Appendix 8.8

Distribution of How Important the
Respondents Considered Measuring Actual
Results Against Estimates of Long-term
Plans Prepared in Previous Years, for
the Purposes of Improving and
Formulating Long-term Plans

	%
Very important	29
Quite important	37
Of some importance	26
Of little importance	8
Of no importance	0

Appendix 8.9

Distribution of How Effective the
Respondents Considered the Mentioned
Management Systems to be as a Means
of Improving the Decision-Making
Process

	Very effective	Quite effective	Of some effective- ness	Of little effective- ness	Of no effective- ness
	%	%	%	%	%
Programme budget- ing system (PPB)	3	12	44	32	9
Corporate planning	15	50	30	5	0
Zero-base budget- ing (ZBB)	11	26	39	21	3

Appendix 8.10

Distribution of How Much the Respondents'
Answers Have Been Influenced By The
Factors Stated in Answering Question 7.1

	PROGRAMME BUDGETING (PPBS)			CORPORATE PLANNING			ZERO-BASE BUDGETING (ZBB)		
	Major influ- ence	Minor influ- ence	No influ- ence	Major influ- ence	Minor influ- ence	No influ- ence	Major influ- ence	Minor influ- ence	No influ- ence
	%	%	%	%	%	%	%	%	%
From the experience of our authority	27	22	51	66	27	7	32	23	45
From per- sonal experience in other authorities	40	22	38	51	33	16	18	33	49
From aware- ness of the experience of other authorities that have introduced such systems	40	49	11	38	51	11	23	42	35
From reading relevant literature	50	45	5	54	43	3	46	45	9
Other	100	-	-	100	-	-	100	-	-

Appendix 9.1

Distribution of How Important the
Respondents Considered Budget
Information Should Be to Each User

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
a. Policy makers - the elected members assisted by chief officers	89	9	1	1	-
b. Service managers - generally any officer respons- ible for expend- iture for the whole or part of any service or activity	95	5	-	-	-
c. Central government (e.g. civil servants, MPs, etc) to help them form and guide national policies	30	28	30	9	3
d. Local authority association	22	40	32	6	-
e. Other local authorities, for comparative purposes	11	28	49	12	-
f. Ratepayers assoc- iation	26	32	29	12	1
g. The public and Press	30	37	25	8	-
h. Other	23	38	39	-	-

Appendix 9.1

Distribution of How Important the
Respondents Considered Budget
Information Should Be to Each User

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
a. Policy makers - the elected members assisted by chief officers	89	9	1	1	-
b. Service managers - generally any officer respons- ible for expend- iture for the whole or part of any service or activity	95	5	-	-	-
c. Central government (e.g. civil servants, MPs, etc) to help them form and guide national policies	30	28	30	9	3
d. Local authority association	22	40	32	6	-
e. Other local authorities, for comparative purposes	11	28	49	12	-
f. Ratepayers assoc- iation	26	32	29	12	1
g. The public and Press	30	37	25	8	-
h. Other	23	38	39	-	-

Appendix 9.2

Distribution of How Important the
Respondents Considered Each of the
Listed Functions to be as a Function
of the Annual Budgets

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
a. Enables the rate or precept to be fixed	94	5	1	-	-
b. Assists in policy- making	64	28	7	1	-
c. Assists the authority's planning of future expenditure	38	35	22	5	-
d. Provides the base for control of expenditure and income	79	19	2	-	-
e. Provides yardstick measuring implementation of policy	29	33	26	10	2
f. Other	50	40	10	-	-

Appendix 9.3

Distribution of How Important the
Respondents considered Each of the
Listed Functions to be as a Function
of the Medium-term Budgets

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
a. To forecast possible rate levies well in advance so that members can indicate political acceptability	9	25	38	9	19
b. To review the relative speed at which different services can be developed and to achieve a co-ordinated approach to service development	19	16	31	21	13
c. To plot the longer-term financial consequences of different projects, whether revenue or capital, to assist in policy choice	39	46	9	6	-
d. To consider the development of local services in the light of government indicators such as the Public Expenditure Survey	9	6	38	34	13
e. To display the cumulative effects of existing commitments, both revenue and capital, as a base for future changes in service provision	36	31	18	6	9

(continued/...)

Appendix 9.3 (continued/...)

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
f. To weigh the longer-term forecasts submitted to government departments	3	10	29	16	42
g. To enable political priorities to emerge in the light of what is possible within the limited physical and financial resources available	42	24	27	7	-
h. To reflect the continuing burden of local service provision and possible developments and policy changes	30	22	21	15	12
i. Other	80	20	-	-	-

Appendix 9.4

Distribution of How Much Influence
Is Exerted by One or More of the
Listed Groups in Forming the Final
Consideration and Decisions on the
Budgets as Assigned by the Respondents

	To a very great extent	To a consider- able extent	To some extent	To a small extent	Not at all
	%	%	%	%	%
a. Some of the individual chief officers	15	43	31	10	1
b. Service committees	13	41	34	11	1
c. Programme committees	12	25	25	12	26
d. Management team	21	24	36	13	6
e. Policy or finance committee of council	67	21	9	1	2
f. The whole council	18	15	26	28	13
g. Treasurer/Director of finance	45	39	14	2	-
h. General committee of local party in power	44	23	9	10	14

Appendix 9.5

Distribution of How Important the Respondents Considered Each Type of Budgetary Control

	Very important	Quite important	Of some importance	Of little importance	Of no importance
	%	%	%	%	%
a. Control during preparation (i.e. control exerted by the acceptance of overall resource constraints)	81	15	3	1	-
b. Control during outturn (i.e. control is made to monitor actual activity against the planned position)	67	24	9	-	-
c. Control by end-of-year review of actual performance under each budget	23	32	35	9	1

Appendix 9.6

Distribution of How Much Influence Is Exerted by the Cash Limit System on the Planning and the Operation of the Budgetary System

To a very great extent	37
To a considerable extent	48
To some extent	15

Appendix 9.7

The Distribution of the Extent to Which
the Respondents Use Each Type of
Information and Data Outputs

	Very great deal of use	Quite considerable use	Some use	Little use	Of No use
	%	%	%	%	%
a. Cost data	49	38	11	2	-
b. Data to be used for economic and social studies	12	4	34	27	23
c. Financial position statements	44	37	18	1	-
d. Financial reports	37	42	21	-	-
e. Special analytic studies including effectiveness indicators	9	12	58	3	18
f. Progress reports/ management reports	28	43	26	3	-
g. Comparison with budget	62	30	7	1	-
h. Other	40	50	10	-	-

Appendix 9.8

List of Comparative Statistics

Total Authority, and each service	net cost per 1000 population local authority manpower per 1000 population together with the following (where not already covered by this analysis)
Primary education	pupil/teacher ratio (gross) cost per pupil
Secondary education	pupil/teacher ratio (gross) cost per pupil
Further education (non-advanced)	net cost per 1000 population
School meals	revenue/cost ratio pupils receiving free meals as a proportion of school roll
Personal social services	children in care as proportion of population under 18
Children in care	(gross) cost per child in care
Care of the elderly	supported residents aged 75+ in residential homes as a proportion of population aged 75+ (gross) cost per resident week in local authority homes for the elderly
Fieldwork	social work staff per 1000 population
Home helps	contact hours per 1000 population aged 65+
Personal social services	net cost per 1000 population
Police	population per police officer (or force per 1000 population) serious offences per 1000 population
Fire service	(net) cost per 1000 population proportion of area in high fire risk categories
Public Passenger (county council only) transport	passenger journeys per week per 1000 population (county councils only)
Highways	maintenance cost per km principal roads/maintenance cost per km non-principal roads

Housing - HRA	gross rents as a proportion of total costs management and maintenance cost per dwelling per week (excluding special management) rent arrears as percentage of rent collectable for the year
Housing construction	construction cost per dwelling completed
Libraries	(net) cost per 1000 population
Town and Country Planning	(net) cost per 1000 population
Recreation	(net) cost per 1000 population
Refuse collection	(net) cost per 1000 population
Refuse disposal	(net) cost per 1000 population
Specified Trading Services	revenue/gross cost ratio
General administration	change in numbers of support staff over previous year.

Source: Department of the Environment, Annual Reports and Financial Statements. HMSO, Crown copyright, 1981.

SERVICE	Dudley £ per head	Rank	Lowest spending metropolitan districts as ranked by individual authority			Highest spending metropolitan districts as ranked by individual authorities							
			36th Authority	£ per head	35th Authority	34th Authority	£ per head	3rd Authority	2nd Authority	£ per head	1st Authority	£ per head	
Dudley's total spending	289.93	36	Dudley	289.95	Sefton	316	Stockport	Liverpool	466	Newcastle	478	Manchester	548
Education	172.67	34	Trafford	161	Sefton	169	Dudley	Newcastle	274	Manchester	284	Wolverhampton	288
School meals, milk	5.32	36	Dudley	5	Wirral	6	Solihull	Newcastle	13	Manchester	16	Knowsley	17
Libraries, museums and art galleries	6.01	29	Sefton	5	Sandwell	5	Bury	Sheffield	10	Birmingham	10	Manchester	13
Personal social services	29.35	35	Solihull	27	Dudley	29	Trafford	Liverpool	61	Newcastle	78	Manchester	82
Admin of justice	1.70	34	Rotherham	1.27	Calderdale	1.61	Dudley	Bradford	3	Solihull	3	Manchester	5
Highways and local transport	1.67	9	Coventry	- 1.45	Birmingham	- 0.04	Sefton	N. Tyneside	4	Tameside	4	Manchester	4
Housing other than H.R.A.	368	34	Solihull	0.56	Knowsley	2.54	Dudley	Bolton	23	Manchester	24	Liverpool	26
Refuse collection and disposal	6.28	32	Sunderland	5.88	Stockport	6.06	Knowsley	Liverpool	11	Birmingham	11	Manchester	13
Environmental health	4.28	33	Rotherham	3	Bradford	4	Sandwell	Newcastle	10	Manchester	13	Liverpool	20
Pools, sports and recreation	5.78	15	Solihull	2	Wolverhampton	2	Sefton	Knowsley	9	Gateshead	13	Newcastle	13
Parks and open spaces	5.22	32	Rotherham	5.09	Solihull	5.15	Coventry	Manchester	10	Wigan	11	Calderdale	12
Town and country planning	5.29	23	Solihull	2	Sefton	3	Kirklees	S. Tyneside	10	Newcastle	10	Birmingham	12
Cemeteries and crematoria	0.45	31	Knowsley	0.1	Coventry	0.2	Salford	Sunderland	2	N. Tyneside	2	S. Tyneside, Oldham	2
Cost of rate collection	3.33	14	Stockport	2	Wakefield	2	Leeds	Liverpool	4	N. Tyneside	5	Birmingham	5
Rate fund contribution to H.R.A.	0.28	32	St. Helens	- 4	Stockport	0.1	Calderdale	Salford	32	Newcastle	33	Manchester	66
Debt charges	23.10	35	Trafford	15	Dudley	23	Knowsley	Wolverhampton	55	Manchester	60	Liverpool	62

Source: Chartered Institute of Public Finance & Accountancy
Material: Finance and General Rating Statistics 1982-83.

Appendix 9.9

Financial Statistics 1982-83 based on original budgets to show how
Dudley Metropolitan District compares spending per head of population

Appendix 9.10

Distribution of How Important the Respondents Considered Each of the Listed Techniques to Be for the Purposes of Measuring the Output.

	Very important %	Quite important %	Of some importance %	Of little importance %	Of no importance %
a. Cost-benefit analysis of ongoing revenue expenditure	4	11	25	38	22
b. Cost effectiveness analysis	18	31	33	13	5
c. Financial and non-financial statistics	26	45	29	-	-
d. Other	83	17	-	-	-

Appendix 9.11

Distribution of How Important the Respondents Considered Each of the Changes Made in the Accounting and Auditing Procedures.

	Very important %	Quite important %	Of some importance %	Of little importance %	Of no importance %
a. Adapting the cost and management accounting system to achieve improved efficiency	63	29	7	1	-
b. Using effectiveness auditing (i.e. to see how effective the authority has been in achieving its objectives)	22	39	29	10	-
c. Using accrual accounting rather than cash accounting	50	17	22	11	-
d. Establishing a new computerised accounting system	76	19	3	2	-
e. Furnishing accounting reports on the basis of programmes in addition to the traditional reports produced by departments	43	27	24	6	-
Other	50	33	17	-	-